

WASHINGTON STATE GAMBLING COMMISSION

MINUTES COMMISSION MEETING THURSDAY, FEBRUARY 11, 1999

Chairperson McLaughlin called the meeting to order at 1:30 p.m. at Cavanaugh's at Capitol Lake, Olympia, Washington. She welcomed the members of the Washington State Horse Racing Commission who are present in the audience. She introduced Pat LePley and asked him to introduce others as they arrived. She introduced the members of the Commission and the staff present.

MEMBERS PRESENT: **LIZ McLAUGHLIN, Chairperson;**
MARSHALL FORREST, Vice Chair;
EDWARD HEAVEY, CURTIS LUDWIG, and PATRICIA L. HERBOLD

OTHERS PRESENT: **BEN BISHOP, Executive Director;**
SHERRI WINSLOW, Deputy Director of Operations;
ED FLEISHER, Deputy Director of Policy and Government Affairs;
CALLY CASS-HEALY, Assistant Director of Field Operations
DERRY FRIES, Assistant Director of Licensing Operations;
BOB BERG, Assistant Director, Special Operations;
AMY PATJENS, Manager, Communications and Legal Department;
GARY PETERSON, Financial Investigations Unit;
JONATHAN McCOY, Assistant Attorney General; and
SUSAN YEAGER, Executive Assistant

LICENSE APPROVALS

NEW LICENSES, CHANGES, AND TRIBAL CERTIFICATIONS

Commissioner Ludwig moved to approve the new licenses, changes, and tribal certifications as listed in the agenda; **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

REVIEW OF FRIDAY'S AGENDA

Ms. Patjens said there are a couple of updates to the agenda. Following the staff report by Sherri Winslow, Dave Bemis of Freddie's Club will show a videotape that deals with the different requirements for house banked facilities, and then tomorrow they will be discussing all of the rules that go along with that. Item five is the card room contracts for the house banked pilot study. There is an addition to that list, Chips Casino in Bremerton. Under item 6, Phase II Reviews, Silver Dollar has been removed and is being held over. On Friday's agenda there will be two staff reports instead of one – the legislative update by Deputy Director Ed Fleisher and Ms. Patjens said she would be doing a report in conjunction with Jon McCoy on what's been going on with other cities and counties in the area of zoning and moratoriums and other issues that are in response to the enhanced card rooms. Item 3, bingo rule, will be held over until next month as agreed upon during this morning's study group meeting. Sherri Winslow is doing the review of the card room rules. There are 66 card room rules up for discussion only. They will be on the agenda next month for possible filing, but are just up for discussion today.

STAFF REPORT

CARD ROOM ENHANCEMENT PROGRAM UPDATE

Sherri Winslow, Deputy Director of Operations

Ms. Winslow said she would provide a brief overview of the card room test program. Prior to 1996, card room activity was limited and declining. The games they had were non-banking card games and Washington blackjack tables were limited to five with a chair fee of up to \$3 per half-hour. The wagering limits were \$25 and \$10 for each single wager for poker. As a result of the 1996 legislation, the number of tables increased from 5 to 15; fees for alternative collections were changed to include a per hand fee, a rake and a per hour fee. Wagering

limits stayed the same and then player-supported jackpots were authorized. This was to allow players to contribute money toward jackpots. In 1997, there was another legislative change to allow operators to receive the net win from card games that is commonly referred to as house banking. At that point house banking and player-funded banking games were authorized.

Ms. Winslow showed a slide that gave an overview of the pilot study which was started to determine the best approach to implement 1996 and '97 legislation. Some of the requirements included that card room licensees enter into a contract with the Commission that the licensees operate the card room for at least six months or they receive a waiver. The licensees must undergo a review process and then a pre-operation inspection was required for house banking or player-funded banked games. In addition, fees to cover the cost of the study were imposed.

Ms. Winslow said that Appendix B was developed to assist with the test by setting forth guidelines for standards of operation and management for general enhanced card games. This would be the poker and Washington blackjack. Some of the key provisions in this appendix include disclosure requirements, operational requirements, security – which is the surveillance system – and then also regulatory requirements and internal controls. For general enhancement activity and participants, they included participants' approval for Appendix B activity was allowed to either utilize increased card tables, the increased wagers, alternative collection methods and/or player-supported jackpots. Currently, there are 15 licensees that are conducting activity only under Appendix B. There are 21 player-supported jackpots within these 15 establishments.

Ms. Winslow said that some of the discoveries from the monitoring of the activity happened during the enhancement test and Appendix B was rewritten to strengthen the requirements and regulations placed upon the licensees. The major changes included the licensees being allowed a 10 percent administrative fee. There were drop box changes where licensees were only allowed to offer cash prizes for player-supported jackpots. In addition, for prizes in excess of \$500, the licensees were required to set aside video tapes and then owners were not allowed to share in the winnings of player-supported jackpots and then limitations were placed on managers and floor supervisors.

Ms. Winslow said that other discoveries included the area of player-funded banking. They performed a limited test of player-funded banking where two operators participated and based on this testing, staff determined that the method used for tracking the funds were extremely difficult to regulate and because of the increased security concerns since the funding was the players they decided that they were not going to recommend this method for future activity. Another part of the monitoring included the alternative fee assessment methods and observations made of the assessment methods concluded that the rake could not be regulated like the other activities. Surveillance systems were recommended as an additional regulatory measure to compensate for the inherent controls with this method.

Ms. Winslow said the next slide pertained to Appendix C activity [mike cutoff here] that was developed to assist with the test by providing guidelines and standards of operation and management for bank games. Some of the key provisions of Appendix C include the authorized games, the wagering limits, the accounting **records** and system of internal controls. They also checked the closed-circuit television system and then the organization and gaming operations and the control procedures over those operations.

Ms. Winslow said the next slide depicted a small section on the house-banked activity and participants. Appendix C authorized operators to operate a maximum of 15 tables of house-banked games, the most common has been blackjack, and in addition to that card rooms have been allowed to offer novelty games. Those are games such as Caribbean Stud, Let It Ride, and progressive blackjack amongst others. In addition to that, promotions were allowed during the house banked test and those promotions were included as part of the card games, the most common being the match play coupon, which allows a player an increased pay-out.

Ms. Winslow said that some of the information about the house banked participants is on the next slide and that includes first and foremost one of their bigger learning experiences was waiver requirements. The program was approved with the provision that six month operation as a Class E-1 or E-5 card room be a prerequisite to be eligible to participate in the test. It was also provided to include the ability for the director to waive the six-month operating requirement based on demonstrated experience. It became readily apparent during this process that

operating or managing a traditional card room in Washington did not necessarily translate to the effective operation of the card room under house banking games. This aspect of the test program was not included in the rules package for this reason.

Ms. Winslow said that the number of card rooms that are currently participating in the test as of December 31st, they had 30 card rooms which were approved and then five more were approved in January. As far as future approvals go, in August of 1998 they limited approvals on Phase I's to only those that are on their eligibility list not to exceed five new licensee approvals per month and this was further limited to ensure staff had enough time to monitor activities. They have the locations of the card rooms throughout the state with the primary focus of locations being in greater Puget Sound and Spokane. As far as the number of Phase II approvals, as of December 31st eight of the 14 eligible card rooms have requested and completed the Phase II review process allowing them wagering limits up to \$100. Two more were approved in January of 1999. As for operating hours, as with Appendix B operations, card rooms are not allowed to operate card games between the hours of two and six in the morning absent meeting specific requirements and receiving approval from the director.

Ms. Winslow said discoveries that were made during the monitoring of the activity include those necessary to make modifications to Appendix C. They had nine separate addenda, which were developed to enhance the control procedures. She said the details were outlined on page 16 of the test report. Other discoveries during the test include some of the limitations they had placed on them during the test because of their staffing not being at the level necessary to do everything for everyone and that was primarily in the area of new games and promotions. They did place a limitation that no new games or promotions were allowed until the conclusion of the test because they wanted to focus on allowing new house banked card games and then the monitoring of the activity.

Ms. Winslow said another area was the Level I operations for house banking. They had licensees inform them that it was not economically feasible for them to operate at the lower level of wagering and they did not have any requests at this level during the test program up to this time and they do not expect any. As far as internal controls submissions, throughout the test, they discovered many licensees were not able to create an internal control document for their operation. The quality of the submissions were not adequate for the level of operation. This required a significant amount of staff time to be spent towards working with the licensees to work on the internal control documents. It is predicted that future submissions will improve as participants become more knowledgeable of casino gaming and in addition staff plan to develop an internal control document to assist the licensees.

Ms. Winslow said that with regard to surveillance, it is safe to say that the surveillance systems in the test went through an evolutionary process. Both the licensees and the staff have learned a tremendous amount from instance noted and from working with the various systems in operation. As a result, they all have become more educated and proficient in the use of surveillance equipment. Finally, in this area the internal audit requirement licensees are required to establish an internal audit function to ensure Commission rules and the internal controls are followed. An annual report is written and submitted to the Commission based on the findings of the audit. Since the house banking enhancement program is only about one year along, they are just beginning to receive these annual reports. In some cases they are finding that the reports do not indicate a complete understanding of internal controls. Because of this, the reports vary widely with respect to areas reviewed, material discrepancies noted, and the corrective action taken. They are looking at various proposals to resolve this issue and should be coming forward with some conclusive recommendations at the next meeting.

Ms. Winslow said the next area has to do with discoveries from their undercover surveillance. The slide showed that their undercover surveillance objective is to assist with the regulatory process, which is designed to protect the public and ensure compliance with RCWs, WACs, and appendices. Agents look for breach game protection and security procedures. They look for dealer violations and cheating and any other illegal activity. Some of the deal procedure problems that were noted by the undercover agents relate to the various aspects of dealing. Most of the dealer procedures are in place to protect the integrity of the game thereby protecting the house as well as the players. Deviations from procedures observed appear mostly to be mistakes such as dealers not burning cards, and not spreading chips. Dealers touching their body without clearing their hands, and cupping and palming chips.

Ms. Winslow said they found that the supervisory presence in commercial establishments is not as prevalent as it could be. This narrowed presence of supervisory personnel more likely than not has resulted in the procedural errors that they are finding from the dealers. They are working with the licensees on beefing up supervisory procedures in this area. **Ms. Winslow** said that a case summary report of incidents is included in Appendix A of the report, which outlines the incidents noted during the test. All incidents resulted from complaints, reviews, and inspections occurring during the tests and they were tracked to include 58 incidents being reported to or found by staff during inspections. These incidents resulted in a range of verbal warnings to formal statements of charges. Most of those incidents were violations similar to those found in card rooms in operation prior to the inception of the enhancement program and as of this writing most if not all the incidents have been resolved.

Ms. Winslow said that in the area of licensing, during the test period there have been significant impacts to their licensing program in terms of numerical growth and sophistication of applications. This growth has occurred not only in the card rooms and with key employees, but also with manufacturers and service suppliers. The slide showed that the projection for 2001 just in this area alone is for up to 10 manufacturers, 20 services suppliers, 80 card rooms, and up to 6,800 key employees. They also feel that there is going to be a significant increase in the number of multi-level organizations, which is causing them to refocus their efforts in the licensing area to gear up for these changes.

Ms. Winslow said that their comprehensive regulatory program has been developed and is currently operating for these licensees and includes a review of the ownership and financing information, which starts with their financing checklist. It also includes a pre-operation inspection, which is handled by their pre-operation checklist and is performed before a licensee is allowed to operate house-banked activity. In addition, they have their compliance modules, which are conducted throughout the year. There are 14 separate modules that are used to inspect various activities operated within the house-banked program. She said that the last item is their Phase II review program and prior to a licensee increasing their wagering limits, they have to undergo this Phase II review investigation which is very comprehensive in nature and by the time they get through, everything possible has been checked once, if not twice.

Ms. Winslow said, regarding the staffing required for the enhanced card room activity, they foresee that the majority of their regulatory time is going to be spent on house-banked card rooms as opposed to non house-banked. The staff requests are based upon a calculation of 80 projected house-banked card rooms, which equates to the FTEs shown on the screen. They expect a total of 45 will be needed, they currently have 18 authorized, and they are going to request 27 more to be authorized. The assumptions used for those calculations are included in the report.

Ms. Winslow said the last and most important area is the policy considerations. She said that at a past meeting she had pointed those considerations, but wanted to go over them briefly again. The first one was whether to modify the commercial stimulant requirements. She said they had not included anything in the rules package on this but she believed that they would be discussing this at future Commission meetings to find out what the Commission's position is in this area. The next one has to do with whether to allow house-banked or player-funded bank card games.

Ms. Winslow said that the next area pertained to whether or not to allow multiple ownership locations. It is recognized that there's no specific authority to limit multiple locations for one owner, but the close proximity of locations is something that the Commission needs to consider when they are looking at operating hours to make sure that licensee is not effectively circumventing that 15-table limitation that was approved by the Legislature. The number of card tables authorized not to exceed 15, which is included in the rules package because they did not see any regulatory problems with that, but it certainly is a policy matter that can be changed.

Ms. Winslow said she recalled that they pretty much included the rules package to set out the number of players authorized per table during the test program. They added a proviso that there could be nine spots on a table, although there would be a limitation of seven players per table for house-banked activity. She said that in the methods and amounts to allow for assessment and collection of fees they included those assessment and collection methods and amounts that were part of the test program as they saw that there were no regulatory concerns in that area. The types of card games allowed they have included those games that were included in the test program with the exception of Baccarat and Red Dog. She said that in the limitations on wagers they

included the same limitations that were in the test program which was a \$25 wager for Phase I activity and \$100 wager for Phase II activity.

Ms. Winslow said that regarding hours of operation, they have a rule proposed requiring a four-hour closure period. They will also be looking at multi-ownership locations focused on policy considerations. The majority of the issues have been included as part of the test program and were put forward in the rules package as tested since they posed no regulatory concerns. These areas may pose policy concerns and may be adjusted based on the direction of the Commission. She said that due to the lengthy schedule for the day, she would not go over the graphs with them, but they were in the packets and could be gone over when time permits.

Commissioner Ludwig said one of the policy issues Ms. Winslow addressed was of concern to him because of where the Commission is right now on the consideration of whether to limit ownership of locations by one owner. He said the Legislature might also do that with all of the things they were hearing about their concerns. He wondered what they could expect because they now have licensees owning more than one in a couple of instances, at least. He wondered if they could expect them to come forward if they say only one location per owner. He wondered if they could expect them to come forward and say, "Now wait a minute. You let us make this big investment and we've sunk a lot of money into this. We ought to be grandfathered in if you limit it to one location per owner." **Ms. Winslow** said she guessed that would happen. **Commissioner Ludwig** asked if they are warning those applicants for multiple locations that that position will not be accepted because this is a pilot program and they're going into it with their eyes wide open. **Ms. Winslow** said they have made it very clear throughout the process that it is a test program, but still she expects that there will be those who will say they have a tremendous financial burden on them and they will try to do whatever they can. **Commissioner Ludwig** wanted to be sure they are being told that up front. **Ms. Winslow** said that was her understanding of what they are being told.

Commissioner Heavey asked what their criteria were for saying that an individual can't own multiple operations. **Ms. Winslow** said they are not limiting multi-ownership locations. The one limit that is in the rules package is if they do have a multi-ownership location they cannot operate during different hours of operation, which will prohibit them from operating 24 hours at two locations within one mile of one another. **Commissioner Heavey** said they were talking previously about administrative offices for each one individually. They could not combine administrative functions. **Ms. Winslow** said if there is an entity that is operating within the test program, they cannot share any facilities between entities. For example, the surveillance system in an entity has to be within that facility – they can't have two entities in the surveillance system in one of them. She said that was the way they have approved everything up until now and they would continue to do it that way. They handle it through the approval process as opposed to putting in specific requirements that limit that. It has to be a free-standing facility separate from any others.

Chairperson McLaughlin asked what a multi-level organization is. **Ms. Winslow** said that what they were finding is because of the intensive capital needs of these casinos or card rooms, they are seeking funding sources from several different organizations. She said their licensing department is seeing applications with not only one or two individuals or a corporation, they're seeing Limited Liability Companies (LLCs) zoning, LLCs and additional individuals involved, so when they say "multi-level" it could be one LLC contributing to another LLC, and they must do the background check on both the organizations because they're funding the card room facility.

Commissioner Forrest said that, regarding her comment about whether to modify commercial stimulant requirements. He received a memo that listed the various places – primary and commercial stimulus – in which at the current time the RCWs and the rules are not consistent. He went on to say that while the Commission cannot change the RCWs, he felt it particularly important that they bring the rules in order. He urged that at the next meeting, some time be devoted to exploring that; for example, the meaning and understanding of the word "primarily." He urged that this be placed on the discussion agenda and that the Commission and the industry be prepared to address and think about it.

Chairperson McLaughlin asked if there were any other comments.

Director Bishop said something came up last night at the Washington State Council on Problem Gambling meeting. He asked if there is anything in their internal controls have to do with whether employees that are part

of control structure can play cards within that facility. **Ms. Winslow** said there are specific requirements with regard to the limitations in player-supported jackpots and that came about because of some problems that they had during the test program, but as far as house-banked facilities, she was not aware that they do have limitations in that area. **Director Bishop** said it is his understanding from talking to many of the operators that they themselves prohibit their employees from playing cards. **Commissioner Heavey** pointed out that if they made a broad prohibition, that would include shills. He said he would not have a problem with eliminating shills either, but they should keep that in mind because playing with shills is currently allowed in Washington State. **Director Bishop** said he would like to find out how many operators do allow employees to play. **Ms. Winslow** said she would gather feedback on that issue and see if they need to put a limitation on there. **Director Bishop** said his personal belief was for businesses to themselves take care of those types of issues. From a regulatory perspective, however, he said there's an opportunity for something to go wrong and that concerns him.

Commissioner Ludwig pointed out that the Commission had previously discussed the term "game starters" which were recognized and permitted in the state of Washington. He said he was aware that the term "game starters" was synonymous with the term "shills". **Director Bishop** said they had not discussed it in the sense of a house-banked game where the people are a direct part of the control structure and that was the point that he was trying to make – maybe the Commission needs to revisit that situation.

Commissioner Heavey asked if the staff has ever compared the WSGC's regulatory system with Las Vegas and what they do. **Ms. Winslow** said comparisons have been made to New Jersey, and the staff has looked into Nevada rules and laws; however, their focus is quite a bit different because they have different type of gaming. This is 15 tables of house-banked card games, which cannot be found anywhere else in the U.S., or perhaps even in the world. **Director Bishop** said all of the people he has talked to down there do not allow their employees to game within their facility. **Commissioner Heavey** said he's referring to the general regulatory scheme. **Ms. Winslow** said when a particular problem arises, the staff does contact their Nevada colleagues particularly in the surveillance area. A couple of staff people have gone into the facilities and looked at the surveillance equipment in Nevada and they have worked with the Nevada Gaming Commission to make sure that they got off on the right start with the surveillance systems because it was an evolutionary process. When they started out, they were dealing with Costco-type systems and none of the staff knew how those worked, so

Ms. Winslow said this state has a more detailed control environment than Nevada. **Director Bishop** said they went through and looked at a draft proposal from the National Indian Gaming Commission on minimum internal control standards and they found that the Washington compact mirrored that almost exactly and they based this system on Washington Compacts. The major difference between the New Jersey model that Ms. Winslow discussed and Nevada model is that New Jersey mandates specific procedures that must be followed and Nevada allows a business to accomplish the function, but gives them leeway of writing them to meet their internal controls. He said he thought they have probably integrated both of them to some degree because each one of the businesses is a little bit different. They are not required to start and build one cookie cutter-type of business. He said he thought Washington had taken the best from both systems. **Commissioner Heavey** asked if they were not doing anything radically different either in terms of looseness or tightness in terms of the regulations. **Ms. Winslow** said it's tighter rather than looser.

Chairperson McLaughlin thanked Ms. Winslow and her staff for putting together this report and all of the people that are out in the establishments that helped put this together. She said she appreciated how easy it was to read and it didn't take three days to do it.

Chairman McLaughlin introduced Jon McCoy, who arrived at this time.

Mr. Bemis, of Freddie's Club, showed a five-minute video shown at the Burien City Council Meeting to educate people on what goes on behind the scenes.

VIDEO – Mr. Bemis [verbatim transcription]

Hi, my name's Dave Bemis. I'm the general manager of Freddie's Club Casino. Thirteen months ago, when Fred Steiner, the CEO and president of the corporation opened the first non-tribal, tax-paying mini-

casino in the City of Renton, we had 64 employees; today we have 700. These 700 employees came to us, some of them by the way of the state. Twenty-five percent of them at that time were on some type of public assistance. Now, they're making between \$30,000 and \$40,000 a year. They have an opportunity to live what I call the "American Dream." They can send their children to college; they can buy a home.

Today, I'd like to take you on a tour of our mini-casino. I'd like to show you the heart of the operations – surveillance security, things that a lot of people aren't aware it takes to run one of these operations. By Washington State law, we're allowed to run 15 tables. We feature five games – Pai Gow poker, Caribbean Stud, Let It Ride, Progressive Blackjack, and Blackjack. When our room's at full capacity, it takes 100 employees to run this room.

This is the area we call "the cage." This is where all transactions first start. A person who wants to cash a check has to have the necessary information with our club. They all have to fill out one of these cards, which requires driver's license and a major credit card. In this area, which we call "the cage," we have two cameras – a fixed camera and a PTZ camera. We also, throughout the facility, have four silent alarms.

We're now entering the heart of the operation. No one is allowed in this area without security. There's one master key to every mini-casino. We're now in "soft count." Next to me is what we call "the cart." Every day the state law requires us to be down four hours a day. At that point this cart is taken on what we call "a money trail" throughout the casino. Each table has a box and each box is labeled. This box happened to be Blackjack No. 5. The boxes are pulled, put into the cart, and the cart is then double-locked. At that point, the cart is brought back into the soft-count area. During soft count, no one is allowed to enter or leave this room. Three people are in here – a soft count manager and two people at each end of the table, all wearing white aprons. The table, as you can also see, is glass. They count the money, the money is then dropped into what we call a drop-box or a drop-safe. In this room, we also have two cameras – one is a fixed camera shining down on the glass tabletop; the other one is a PTZ camera which rotates throughout the room. This room is also voice-recorded. No one can leave this room during the time of soft count.

We're now in "key control." Every key in this building has to be signed for. As you can see, we have a form that has to be filled out. On the bottom of the form, we have signatures. These people are the only authorized people to check out this key. They check out the key, they sign for it, when they bring the key back, they sign back in for it. In our surveillance room we carry 1,500 tapes. These tapes are kept for seven days. If an incident happens, we're required by the state to keep them for 30 days. Any incident is written on a report, which I receive on a daily basis.

Also in the room next to me we have what we call "the card room." We go through 3,000 decks of cards a month. After each day, the cards are pulled and canceled. They cancel the cards by taking out these notches on each side. What do we do with 3,000 decks of cards on a monthly basis? We donate them to hospitals, charities, and nursing homes.

This is surveillance. We have 48 color monitor TVs, as you can see, and 48 VCRs. We have a capability -- if power broke down -- we have a 20-minute back-up power source. This room is manned 24 hours a day. We have the ability to zoom in on what we call the PTZ camera, which is a pan, tilt, and zoom. We also have fixed cameras over each one of the games. In case of an incident, they communicate with security. These are two-way radios. This is the heart of the operation. This room here is monitored very heavily at all times. In a mini-casino, besides offering an opportunity for the recreational gambler, we also offer a lot of other opportunities for people to have fun. In the lounge, in the pool room, and all mini-casinos have very, very fine dining establishments. So as you can see, this is an opportunity for everyone to have fun.

I want to take a moment and thank you for going on this mini-tour with me through the casino. In the City of Renton this year, we contributed \$1.4 million in taxes and we estimate in the city of Auburn \$400,000 in taxes. We employed 700 people and with the growth of this industry we want everyone to have the opportunity to live the American Dream.

Chairperson McLaughlin thanked Mr. Bemis for the presentation.

QUALIFICATION REVIEWS

SNO-KING AMATEUR HOCKEY ASSOCIATION, Kirkland

Mr. Peterson said the organization was formed in 1965 to promote, develop, and supervise youth that participate in hockey programs. Licensed since 1974, the organization has 616 active members and is governed by a nine-member board of directors. The organization has a full-time executive director and 10 employees who provide program services. During the 1997-1998 season, the Association placed 616 players ages 9 through 18 on various hockey teams. The Association's midget team won the best sportsmanship award from the Pacific Coast Amateur Hockey League, which has over 20,000 members. The Association also provided an in-line hockey program in 1997-1998 year. During the last fiscal year, the Association decreased its long-term debt, increased program revenues at their ice arena and conducted an auction, which raised over \$48,000 for their building fund.

Mr. Peterson said that for the fiscal year ending June 30, 1998, the Association achieved a net return of 17.5 percent, which exceeded the 14 percent combined net return percentage for the Class "J" bingo license. The Association's year-to-date net return as of September 30, 1998, was 15.8 percent. The Association met its program and supporting services expenditure requirements for the past fiscal year and did not have excessive reserves. Based upon the information provided, staff recommends that Sno-King Amateur Hockey Association be approved as an athletic association and authorized to conduct gambling activities in the State of Washington.

Chairperson McLaughlin asked if Mr. Bock wished to speak. **Commissioner Heavey** said he had a question for Mr. Bock. He asked how long Mr. Bock has been with the organization; **Mr. Bock** said he had been with them a little more than a year. **Commissioner Heavey** asked if he knows what the level of activity was before bingo was legalized for charitable organizations. **Mr. Bock** said he doesn't know.

Commissioner Heavey asked what the level of activity is now. **Mr. Bock** said there was roughly a little more than 600 individuals involved in the various hockey programs. He said there was an ice rink that is rather expensive to maintain and there's quite a bit of public skating at that ice rink. **Commissioner Heavey** asked what percentage of their income was derived from bingo activities. **Mr. Bock** said he had no idea. **Mr. Peterson** said about 80 percent.

Commissioner Heavey asked if their income had declined in the last two years. **Mr. Bock** said it has been going down for about the last five years at roughly \$70,000 to \$80,000 a year decline in revenue. It has significantly affected the programs so that now the organization must sell ice time as a revenue source, but now, as they prepare the budget for next year, services will be curtailed. The revenue projected for this year as \$400,000, but they only made about \$325,000. He said that, for next year he would hope to reach \$350,000 in revenue from the bingo side of the operation. He said he was unfamiliar with the other income sides of the operation such as the ice rental, the auctions and other fund raising activities.

Commissioner Heavey asked if they had curtailed their services. **Mr. Bock** said he did not believe they curtailed them that much other than the distinction between the ice time being paid for and used for services versus being leased out and that's had some of their free services have been cut back because they now have to be a revenue-generating source.

Commissioner Ludwig asked about pull tab revenue. **Mr. Bock** said the pull-tab business has been rather consistent in terms of going up. He said their per head spent has gone up.

Chairperson McLaughlin asked if there were any other questions. There were none.

Commissioner Ludwig moved to adopt the staff's recommendation and approve the Sno-King Amateur Hockey as an athletic association and authorized to conduct gambling activities in the state of Washington.

Commissioner Forrest seconded the motion. *Vote taken; motion carried with five aye votes.*

SEATTLE SKATING CLUB, Edmonds

Mr. Peterson said the organization was formed in 1937 to provide facilities and programs to support the local skating community and promote the sport of figure skating. The organization has been licensed since 1974 and has 170 active members and a 14-member governing board. The organization has an executive director, a full-time skating director and two part-time employees who provide program services. In addition 95 person volunteered to provide program service the last fiscal year. During the year ended June 30, 1998, the organization provided approximately 38.5 ice hours per week to 544 member skaters. The organization conducted a summer skating school, a figure skating seminar and an ice review this past fiscal year. The organization hosted the 1998-1999 United States Figure Skating Association's sectional competitions. Along with Seattle Junior Hockey Association, the organization jointly owns the Olympic View Ice Arena. They are currently pursuing the feasibility of building another sheet of ice and expanding programs to provide skating opportunities for the local community.

Mr. Peterson said that for the fiscal year ended June 30, 1998, the organization met its required net return percentage of 16 percent for its Class "M" bingo license by achieving a 17.1 percent net return. Their year-to-date net return as of September 30, 1998, was 16.6 percent and the organization also met their program and supporting services expenditure requirements and did not accumulate excessive reserves. The staff recommends Seattle Skating Club be approved as an athletic association and authorized to conduct gambling activities in the state of Washington.

Commissioner Heavey asked Carla Stanford if the organization has suffered a decline in their net revenues. **Ms. Stanford** said the decline in net revenues is slight and they have done better than some have. They have been fortunate that the days of operation that they are on has helped them, but they had declined over the past three to four years. **Commissioner Heavey** asked if there is anyone present who is acquainted with the program side of the Seattle Skating Club. There was no one present.

Acting Chairperson Forrest called for a motion (*Chairperson McLaughlin stepped out of the room for a moment*). **Commissioner Ludwig** moved to adopt the staff's recommendation that the Seattle Skating Club, Inc., be approved as an athletic organization authorized to conduct gambling activities in the State of Washington. **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with four aye votes.*

Mr. Peterson said there had been a correction passed out and he wanted to call attention to that. **Mr. Fries** stated that there had been no questions regarding it.

(Chairperson McLaughlin returned at this time)

CARD ROOM CONTRACTS UNDER APPENDIX C – HOUSE BANKED PILOT TEST

Grove Tavern, Everett

Ms. Cass-Healy said this is an existing tavern and card room operating under its present ownership since 1989. Walter Leavitt, President, and Janice Leavitt, Treasurer, each own 50 percent of the stock. This will be owners only card room in the card room enhancement program. The Grove Tavern submitted a request to participate in the card room enhancement program on August 4, 1997. They are requesting approval to operate a total of 11 tables including six house-banked blackjack, two Let It Ride, and three player-banked poker, including one PSJ scheme. Special agents reviewed their internal control submission and completed the pre-operational inspection and checklist. During this inspection, the nature, size and scope of the gaming operation and controls are compared to appendices B and C of the card room enhancement contract and to the internal controls submitted by the licensee.

It was determined that the licensees' operations are in compliance with all of the requirements of appendices B and C. Internal controls appear to be functional as stated in the internal control submission. Based on this

review, it is recommended that the Grove be authorized to participate in the card room enhancement program test as a Level II, Phase I, operation.

Chairperson McLaughlin asked if there were someone present from Grove Tavern. **Ms. Cass-Healy** introduced Mr. David Dotson.

Commissioner Ludwig asked if Mr. Dotson has ever had a player-banked card room previously or if he had received a waiver of the six-month requirement. **David Dotson**, Grove Tavern, said this card room was the first one licensed in Snohomish County so it has been in existence for quite a few years.

Chairperson McLaughlin asked if the outside would be changed at all. **Mr. Dotson** said they planned to add some paint and signage; otherwise, the ambiance will be kept the way it has been for the past 50 years.

Commissioner Ludwig asked if there would be a big casino sign for everyone in Everett to see. **Mr. Dotson** said yes, there would be one, but a little bigger. **Commissioner Ludwig** asked how long people in Everett would put up with so many big casino signs. **Commissioner Ludwig** said his concern was for the people driving around the community and seeing casino signs all over. He said that he was not critical of their business decision but he wondered how many casinos and big signs they would expect to see in Everett. **Mr. Dotson** said it had to do with supply and demand. He said they offer a superior product so they are not concerned about that. **Commissioner Ludwig** said they would not be the last, either, and he wonders if there is not going to be a backlash from all of those casino signs in Everett if they get more and it becomes like Spokane. **Mr. Dotson** said no, and that the sign won't be that much different than what they have now.

Chairperson McLaughlin said there is one other that's going to be licensed, then the Commission okayed five tables at Hunan Palace, which is quite a distance away from the Grove. There are two other enhanced card rooms that are in Snohomish County, but they are near the Everett borders, so it appears like there's four close to each other, and some will make it and some may not. **Mr. Dotson** agreed.

Chairperson McLaughlin asked if anyone in the audience wished to speak on this.

Commissioner Ludwig moved to approve the proposed contract for the Grove Tavern to operate at Level II, Phase I, house-banked card room. **Commissioner Herbold** seconded the motion. **Chairperson McLaughlin** asked if there is a limit on the time. She wanted to point out that this is still the test program and that specific time that is listed may not be the same in the permanent rules. **Mr. Dotson** said he understood that. *Vote taken; motion carried with five aye votes.*

DIAMOND LIL'S, Renton

Ms. Cass-Healy said this is a commercial restaurant, lounge, and card room in Renton, Washington. The card room is held by the GSG Corporation. The stockholders include Fred Steiner, who is also the president. Lori Bender, the treasurer-secretary, Keith Quale, the vice president, and Herb Frei. Other holdings of GSG Corporation include Freddie's of Renton, which has been participating in the card room enhancement program since November 1997 and is currently operating house-banked games at Phase II as approved by the Commission on April 9, 1998. In addition, Fred Steiner is the sole owner of Freddie's of Auburn, which has been participating in house-banked card games at Phase I since September 11, 1998. Diamond Lil's submitted a request to the Washington State Gambling Commission on May 7, 1998 to participate in the house-banking test program. They've been participating in the card room enhance program under Appendix B since July 1996. They are requesting approval to operate a total of ten tables, two house-banked Pai Gow poker tables, and eight non-house-banked poker tables with \$25 maximum betting limits.

Special agents reviewed the internal control submissions and conducted the pre-operation inspections, and completed the pre-operation inspection checklist. Based on the review, it was determined that the licensee's operations are in compliance with all of the requirements of appendices B and C and the internal controls are functional as stated in the internal controls submission. The staff is recommending approval to participate in the Commission's house-banked card room tests as a Level II, Phase I, operation.

Chairperson McLaughlin asked if there was anyone present from Diamond Lil's. **Fred Steiner**, owner, came forward. **Chairperson McLaughlin** pointed out this club was near his other club. She asked what he was putting in this club that's different. **Mr. Steiner** said Diamond Lil's is all poker and a block down is all house-banked games and they wanted to put Pai Gow in with their poker, which is why they went for the house-banking license. He said they are not really changing much. They did have nine tables before; now they have ten, two of which will be Pai Gow poker. Since they ran surveillance and a cage, they did all of the other things anyway even under the poker rules. It wasn't that much of reach for them to do this. They ran all the other expenses anyway – even some things they didn't have to do just to have control of their room.

Chairperson McLaughlin asked if anyone else had questions. **Commissioner Ludwig** asked if Pai Gow would be the only house-banked game; otherwise, he wouldn't need this program. **Mr. Steiner** said yes, those two tables would be the only ones. **Commissioner Ludwig** asked how far away the other club was from Freddie's. **Mr. Steiner** said it was a block away. **Commissioner Ludwig** asked him if he were aware he was entering a pilot program and the final rules could – probably won't – but could say one owner can only have one location with house banking. **Mr. Steiner** said Mr. Ludwig had told him that a few times. **Commissioner Ludwig** said that it seemed to him that if that happened, his attorney could be arguing that the Commission let you make this investment and the Commission should then let then, but he reminded Mr. Steiner that it might not continue and asked him if he understood that. **Mr. Steiner** said he would ask for time to at least sell it to someone else. **Mr. Ludwig** indicated that that seemed like a reasonable response and thanked him.

Commissioner Herbold asked if this were approved, even though the only change is the two Pai Gow tables, would he have to go to the staff to add more tables, or could he choose to have as many of those tables as he wants in the future. **Ms. Winslow** said that once he is approved for house banking activities, he could go back to the staff to get more tables. **Commissioner Ludwig** asked what the staff would likely do with that request. **Ms. Winslow** said the staff would look over the review of the internal controls, make sure that the control structure was set up to allow the banked games. They would do a pre-operation inspection all over again. They would treat it just like a review – it just wouldn't come before the Commission again. **Mr. Ludwig** asked if the number of locations or geography would have any bearing on their decision. **Ms. Winslow** said no. **Mr. Steiner** said that probably wouldn't happen because the poker is completely different than house-banked and they probably would not mix them and they have a good poker business that they want to maintain.

Commissioner Forrest moved to approve that Diamond Lil's be admitted into the card room enhancement program as outlined in the proposal. **Commissioner Herbold** seconded the motion.

Vote taken; motion carried with three aye votes. Commissioner Ludwig voted no; Commissioner Heavey was absent at the time of the vote.

Commissioner Ludwig said his no vote has nothing to do with Mr. Steiner, who is operating a quality club, but Commissioner Ludwig has been opposed to single owners of multiple locations during this pilot test program because he anticipates both the Commission and the licensees that they are approving may have some headaches over what they have done so far in this pilot program and, once again, he thinks the Commission and the operators should go slow to hopefully minimize backlash, rejection of these things by the Legislature and the public generally.

(Commissioner Heavey returned at this time)

Chairperson McLaughlin pointed out that he was also concerned about the fact that some that were on the pilot test program could not go forward for their licenses because there were people that had multiple ownerships that were before them. **Commissioner Ludwig** confirmed that and said he still felt that way.

LAST FRONTIER, LaCenter

Ms. Cass-Healy said MT and M Gaming Inc. is doing business as the Last Frontier and is an existing

commercial restaurant, lounge and card room in LaCenter, Washington. The card room has been operating under the present ownership since November 4, 1988. George Teeny is the president and holds 90.47 percent of the stock. Fred Farah holds 9.53 percent of the stock. George Teeny is also the president and major stockholder of Dragonslayer, Inc., that owns The New Phoenix card room in LaCenter, Washington. The New Phoenix was approved to offer house-banked card games in March of 1998. The Last Frontier submitted a request to participate in the house-banking test program on July 21, 1997. They are requesting approval to operate a total of nine tables. Eight of the tables will be center-dealt poker tables. The ninth table will be converted from a center-dealt poker table to blackjack for several hours each day. Special agents reviewed their internal control submission and completed a pre-operations inspection and checklist. Approval to participate in the Commission's house-banked card tests as a Level II, Phase I, operation is recommended.

Chairperson McLaughlin asked if anyone had questions. **Commissioner Ludwig** asked if the Dragonslayer were a house-banked operation. **Ms. Winslow** said it was. **Chairperson McLaughlin** asked if anyone from the Last Frontier were present. **Joe England** said she could answer questions. **Commissioner Ludwig** asked how close they are to the Dragonslayer. **Ms. England** said they were pretty close.

Commissioner Herbold asked if she is aware that the final rules might prohibit more than one location. **Ms. England** said yes, she had heard that several times today.

Commissioner Forrest moved to approve. **Commissioner Heavey** seconded the motion. **Commissioner Ludwig** announced that he would be voting no again and it has nothing to do with the qualifications of the operator; it's for the same reasons that he voted no on the last application. *Vote taken; motion carried with four aye votes; Commissioner Ludwig voted no.*

FOREST GROVE, Blaine

Ms. Cass-Healy said this is a commercial restaurant, lounge, and card room located in Blaine, and is solely owned by Phyllis Wawryk. This licensee was granted a waiver for the six-month operating requirement based upon the experience of their management staff. They submitted a request to participate in the house-banking test program in August of 1997. They're requesting approval to operate a total of ten tables, all of which will be house-banked with a \$25 maximum betting limit. Eight of the house-banked games will be blackjack, one Let It Ride and one Caribbean Stud. Special agents who also conducted a pre-operational inspection and completed the checklist reviewed the internal control submission. Based on their review it was determined the licensee's operations are in compliance with all of the requirements of appendices B and C and their internal controls are functional as stated in the control submission. Therefore approval to participate in the Commission's house-banking card room test as a Level II, Phase I, operation is recommended.

Chairperson McLaughlin called for anyone from Forest Grove to answer any questions. No one came forward or had questions.

Commissioner Ludwig moved to approve the application of Forest Grove Restaurant to participate in the house-banked program as a Level II, Phase I, operation. **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

CHIPS CASINO AND DELI, Bremerton

Ms. Cass-Healy said this is a new commercial deli, lounge and card room located in Bremerton. The licensee received their gambling license of February 3, 1999 and requested a waiver of the six-month operating requirement which was approved January 26, 1999. The organization is owned by Chips Casino LLC. The LLC managers are Willard and Mary Jane Anderson, who hold a 32.967 percent ownership interest. The other members and their ownership interests include Herbert and Sharon Lampert who hold 60.44 percent, Henry Pierce, who holds 6.6 percent, and these owners don't own an interest in any other card rooms in the enhancement test. Chips Casino and Deli submitted a request to participate in the house banking test program

on August 12, 1998. They're requesting approval to operate 15 tables. Thirteen tables will operate house-banked games including eight blackjack tables, two progressive blackjack tables, one Let It Ride, one Caribbean Stud, and one Pai Gow poker table. Special agents again reviewed their internal controls and conducted the pre-operation inspection and checklist. It was determined the licensees operations are in compliance and their internal controls appeared to be functional as stated in their internal controls submission.

Based on this review, approval to participate in the Commission's house banking card room test as a Level II, Phase I, operation is recommended.

Commissioner Herbold asked what the basis was for granting a waiver. **Ms. Cass-Healy** said it was based on the manager's experience. Mr. Michael [Marques] who has several years' experience including experience in some of the tribal casinos in Washington. **Commissioner Ludwig** said they got their waiver before they got their license. **Ms. Cass-Healy** said they usually request it when they're going through the process. **Commissioner Ludwig** asked how they got on the list and if they paid that \$10,000 deposit. **Ms. Cass-Healy** said the yes, they did.

Chairperson McLaughlin said she recalled that they had some information about this particular house that dealt with something with the Liquor Commission and asked Ms. Cass-Healy to explain that. **Ms. Cass-Healy** referred Chairperson McLaughlin to some letters under Tab 19 that were in the agenda. Some of the concerns that surfaced were the proximity of the Chips to a church in the community and the community raised concerns. She said the Liquor Board issued the license. **Director Bishop** said that's one reason the waiver was before the license, because the Liquor Board only recently granted them a liquor license. **Commissioner Herbold** asked if anyone met with the community members to explain what was going on or are they still out there as irate neighbors and citizens who didn't want this 500 feet from a church. **Ms. Cass-Healy** said she had not heard that they had changed their minds. **Chairperson McLaughlin** asked if someone from Chips were present to answer these questions.

Mike Trollo, general manager of Chips, introduced Mary Jane Anderson, part owner. **Ms. Anderson** said they had talked to the pastor of the church, which is farther than 500 yards away, and pointed out to him the increased security of the entire area once their facility is in operation and has their full security guards on staff and they haven't heard any more about it since then. **Commissioner Ludwig** asked if the Liquor Board had a distance requirement regarding schools. **Ms. Anderson** said it was her understanding that they do and it's based on entrance from one facility to the other and her understanding is that they aren't within the short limitation – they're farther away than that. **Mr. Trollo** said it was 500 feet and he himself walked from the school to the establishment and the casino cannot be seen from there. He said even a commando couldn't get down this hill and over the wall. He said it was safe. **Commissioner Ludwig** said it seemed to him that liquor was a larger concern within proximity to a school and could be a bigger worry than having somebody playing cards within that distance. **Commissioner Herbold** asked is Mr. Trollo was the gentleman with previous experience. **Mr. Trollo** said it was Michael Marques, and Mr. Trollo took over as general manager a month ago. His experience in the casino business is 23 years all over the world and he just assisted opening the Paradise Casino in Parkway-Spanaway area so he has Washington and more previous experience. **Commissioner Herbold** asked if when he took over if the other gentleman stayed on. He said he offered him a shift manager's job and he declined and went to another property. **Commissioner Herbold** asked if they had any other experienced people. **Mr. Trollo** said Al Larson, who's been in the business for 25 years, is operating as casino manager and a shift manager. He said there are other floor people and pit bosses with experience. He said he looks for experience when he hires them.

Commissioner Heavey moved to approve. **Commissioner Forrest** seconded the motion. *Vote taken; motion carried with five aye votes.*

HOUSE BANKED PILOT TEST – PHASE II REVIEWS

ROYAL CASINO, Everett

Ms. Cass-Healy said this organization is owned by a limited liability corporation called Pinnacle Acquisition LLC. On January 1, 1998, shareholders, Robert Brennan and James Flood created two LLCs in order to acquire an existing card room, then called Eddie's Diner and owned by Ronald Porter. Pinnacle Acquisition LLC now owns the casino business and Vintage Limited LLC owns the land and building the business is located in. On August 13, 1998, the licensee began house-banked gaming. Brennan and Flood do not own any other card rooms in the state of Washington. The licensee is currently operating 15 tables including seven blackjack, three Let It Ride, two Caribbean Stud, two progressive blackjack and one Spanish 21. The staff conducted an in-depth review of internal controls and gambling operations. This review included review and observation of the gaming operations itself, review of the closed circuit television system, review of the cashier's cage, review of the gaming and organizational records, count room controls, law enforcement and taxing authority inquiries and a review of the key controls. On January 18, 1999, an exit conference was conducted and the licensee was cooperative and agreed to make all necessary changes requested.

Based on staff review, they recommend approval for royal Casino to operate at a Level II, Phase II status, effective February 13, 1999, which would be at the six-month point. All violations were corrected.

Chairperson McLaughlin asked if there were anything else besides the betting limit that goes along with [fact?] Phase II. **Ms. Cass-Healy** said no. **Chairperson McLaughlin** invited representatives to come forward. **Bob Brennen**, part-owner, Royal Casino, came forward. **Commissioner Ludwig** said that he and another person stopped for lunch there on the way to another meeting and he commented that it is a very nice looking operation. **Chairperson McLaughlin** concurred and said she had seen it as well and it is very attractive.

Commissioner Heavey asked how many \$100 tables he expects to open up. **Mr. Brennen** said it can be \$100 maximum, but they don't anticipate that market right away. **Commissioner Herbold** asked why the Commission is being asked to approve this effective February 13th. **Ms. Cass-Healy** said they are required to operate at Phase I for six months before they can be approved for Phase II.

Commissioner Ludwig said he is usually has reluctance to approve somebody prematurely or early – there's been precedent for it, but February 13 is only two days away and he moved that the licensee be approved for implementation of Level II, Phase II. **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

PUBLIC HEARING AND VOTE on COMPACT AMENDMENTS

TRIBAL LOTTERY SYSTEM

Mr. Fleisher pointed out that Chairperson McLaughlin had mentioned the seven tribes these amendments were referring to – the Kalispel, Quinault, Nisqually, Hoh, Quileute, Skokomish, and Lower Elwha S'Klallam tribes -- who are before the Commission with Appendix X compact amendments almost identical to the ones that they adopted for the 12 tribes at the November meeting. Those 12 tribes were parties to the "Friendly Lawsuit" and these additional tribes are asking for the same thing that was approved back then. The only changes were technical ones due to the fact that these tribes were not parties to the lawsuit. On the payment of outstanding fees, the 12 tribes that agreed to the first set of amendments had a provision in it that no tribe could operate the tribal lottery system until all past regulatory fees are paid in full. This new amendment has a similar provision in section 13.1, but those 12 tribes were not parties to these negotiations. They could not bind them to what the new tribes coming into the program would do, so section 13.1 is specific in these compacts to the individual tribes. They cannot operate the tribal lottery system until their outstanding regulatory fees, if any, are paid in full.

Mr. Fleisher said that, of the seven tribes before them today, only one of them has an operating casino and that's the Nisqually Tribe. Two other tribes – the Kalispel and the Quinault tribes -- plan to open casinos in the near future, and the remaining four tribes have no plans at this time to open a casino. The other change is on page 42 for all the tribes other than the Nisqually. Again, it is just technical. The first year regulatory fees for the tribes that had existing casinos, they were going to use the past year's actual costs as the basis for their first-year regulatory fees under the new regulatory fee scheme. In section 13.4.1, for those tribes who do not have casinos, their regulatory fees, if they choose to open a casino, the first year the Gambling Commission staff will

make an estimate of what their new fees would be for their initial year. Other than that, the compacts are identical to what they saw last November.

Chairperson McLaughlin asked if any tribal representatives were present. Two people announced themselves as representatives. One representing the Nisqually, and one for the Quinault Nation and the Kalispel Tribe.

Commissioner Ludwig said it is his understanding that this is automatic or almost mandatory, because of the "Most Favored Nation" clause.

Commissioner Ludwig moved to approve the amendments to the seven tribal-state compacts that are proposed. **Commissioner Forrest** seconded the motion. **Commissioner Herbold** said that, for the same reasons she gave at the November meeting, which resulted in her voting no at that time, she would be voting no on the basis of principle.

Vote taken; motion carried with three aye votes; Commissioner Herbold voted no.

Commissioner Heavey asked if the ex officio members were eligible to vote on this compact amendment and if so, are five votes necessary. **Mr. McCoy** said a quorum is five members and only three votes are necessary for passage.

OTHER BUSINESS / GENERAL DISCUSSION / COMMENTS FROM PUBLIC

Chairperson McLaughlin called for any other discussions.

Mr. J. B. Bond, general manager of the Paradise Bowling Center and Casino, said he understood and appreciated the Commission's concern about multiple ownership. He wondered if an owner knows this full well and wants to go into it full force and apply for a license, is there a drop-dead date that he or she has to apply for that license for a multiple ownership. **Chairperson McLaughlin** said the test period goes until June 30, 1999. After that, the general rules will be adopted and one can apply any time and whether or not the Commission allows multiple ownership or decides that it's not in the best interest of the public is another question, but there's no date that they have to be in it.

Commissioner Heavey said the final rules will be adopted in June, and if there's a prohibition against multiple ownership, it will be set forth in the rules, so if there's no prohibition against multiple ownership that is detrimental to the public interest and welfare. The issue has not been resolved, but it will be resolved by June.

Commissioner Ludwig said the deadline to get into the pilot program has already passed. It is too late to be included into the pilot program. Applications for the enhancement program under the new rules will be July 1, 1999.

Chairperson McLaughlin called for the members of the Horse Racing Commission to join them for executive session.

EXECUTIVE SESSION

MEETING ADJOURNED until Friday, February 12, at 9:30 a.m.

WASHINGTON STATE GAMBLING COMMISSION

MINUTES COMMISSION MEETING FRIDAY, February 12, 1999

Chairperson McLaughlin called the meeting to order at 9:30 a.m. at Cavanaugh's at Capitol Lake, Olympia, Washington. She introduced the WSGC staff and Commission members at the head table.

MEMBERS PRESENT: LIZ McLAUGHLIN, Chairperson;
MARSHALL FORREST, Vice Chair;
EDWARD HEAVEY; CURTIS LUDWIG; and PATRICIA L. HERBOLD

OTHERS PRESENT: BEN BISHOP, Executive Director;
SHERRI WINSLOW, Deputy Director, Operations;
ED FLEISHER, Deputy Director, Policy and Government Affairs;
CALLY CASS-HEALY, Assistant Director, Field Operations;
DERRY FRIES, Assistant Director, Licensing Operations;
BOB BERG, Assistant Director, Special Operations;
AMY PATJENS, Manager, Communications and Legal Dept.;
JONATHAN McCOY, Assistant Attorney General;
and SUSAN YEAGER, Executive Assistant

APPROVAL OF THE MINUTES FROM THE JANUARY 14 & 15, 1999, MEETING

Chairperson McLaughlin asked if there were any changes to the minutes from the January 14 and 15, 1999, Commission meeting held in LaConner, Washington. There were no changes noted. She said the minutes stand approved as written.

STAFF REPORTS

1999 LEGISLATIVE SESSION

Ed Fleisher gave an update on what is happening so far with legislation and said those materials can be found in the commissioner's handout packet number two. He said Senate Bill 5013, which is the agency-request bill to deal with the criminal history information for the Gambling Commission, has moved out of the committee in the Senate and is in Senate Rules waiting for floor action. SB 5124 is on the list for their information and deals with disclosure for price promotions. It is not part of the Gambling Act, it's a part of a consumer protection statute, but an area they keep an eye on. SB 5204 (HB 1260), the recreational gaming activities bill is in both houses and would allow charities and nonprofits conducting recreational gaming events to charge for additional script or chips as a fundraising activity. The House Committee asked for some response from the Gambling Commission as to its position on the bill. Currently, the nonprofits have fund raising events and so-called "Reno Nights," which is a way for them to raise money doing actual gambling and they have actually lost money on the events. They are held twice a year and have all of the casino games at those events. This is something different. This is dealing currently with what is called recreational gaming events which are non-gambling events for entertainment purposes. These really started out with some high school graduation parties and annual meetings from businesses for annual parties where they wanted to have gambling activities as an entertaining event. A number of years ago, the Commission adopted a rule with regard to this. The reason the rule was adopted was simply because these "for-fun" events were using professional gambling equipment and in Washington it's not legal to own professional gambling equipment without a license. So all the rule currently says is that you can conduct a recreational gaming event if you get the professional gambling equipment, the tables and roulette wheels and so

on from a licensed entity, but you cannot charge people to play the event. Often at the end of the event, the chips or script you're playing with is used for either an auction or drawing of some kind to win some prizes. Some of the people who run these events -- the charities -- wanted to have the laws changed so that during the event if someone wanted to buy more chips and make a contribution to the fundraising activity by buying more chips, that they could do so. That would be consideration, which could get into the area of gambling and legislation is needed to deal with this.

This bill has been heard in both legislative houses. The House is looking at rewriting it so that rather than calling it a recreational gaming event, it would be a second category under the fundraising event and he thought they would probably go with a language that rewrites it that way. In other words, if a charity or non-profit group wants to raise funds with a gambling activity currently, they can do it with "Reno Nights". With legislation, they would be allowed to do it with this type of event where they're not playing for real money, but just chips or script. The bill limits the prizes given out in the event to 10 percent of the amount collected from the donations.

Chairperson McLaughlin asked how often they could run these events. **Mr. Fleisher** said the current draft of the bill would allow them to run them as often as they wished. The 10 percent limit on the amount that can go out in prizes -- and they must be merchandise prizes; they can't be cash prizes -- would distinguish this significantly from the normal "Reno Night" where people are playing gambling for real money a chance to win a lot or to lose a lot. The house on a "Reno Night" is also at risk as any house is in a traditional casino-type environment. An advantage to the charities would be that the house -- the charity -- is not at risk because the maximum they can pay out is this 10 percent in prizes. **Chairperson McLaughlin** asked if a charity, through their bingo game, have this as part of getting people in to play bingo. **Mr. Fleisher** said the way the bill is drafted, they could hold these as often as they wanted, so if they wanted to regularly do it, he supposed they could without a limit on the number of times they can do it. The issue on the number of times they could run these did come up in legislative committee and whether they would place a limit on the number of times they can do this is open to question.

Commissioner Forrest asked how they came up with the 10 percent. **Mr. Fleisher** said that the 10 percent was thought to make these charitable fundraisers. They were thinking these would be limited to charities and nonprofit organization that want to do this as part of their annual fundraiser and to see that 90 percent of the money raised went to the charity rather than back to the gamblers. **Commissioner Forrest** said they could play bingo and 90 percent of the money doesn't go to the charity. **Director Bishop** said he thinks the main reason for this was to solicit donations rather than being a gambling activity and the 10 percent that they're giving back in prizes makes it a gambling activity, so the main emphasis would be something like a political fundraiser where they charge \$500 to attend this dinner or breakfast. **Commissioner Forrest** said considering the impact on their other activities, he said he wouldn't care if it were 30 or 50 percent. It seemed to him that nothing worse about this than the gambling there is all over the state anyhow. He thought they might raise more money if you paid out a third than if they paid out 10 percent. He thought it was a very unnecessarily restrictive limit.

Mr. Fleisher said the way this arose was that most of the recreational gaming events had been done just for entertainment at high school graduation parties or at business meetings. For example, the Seattle Repertory Theater was doing this last year at a fundraiser and after some people got their chips that they got free that they got coming in and lost them all at the table, they said they wanted more chips and they would be glad to pay for them in the way of a donation and were told they couldn't do that because you can't buy the chips at this sort of event, so the promoters had envisioned it for more of those kind of events as a very different group playing these than at the bingo halls which why they felt requiring 90 percent going to the charity made sense in that environment. **Commissioner Forrest** asked if the Legislature wants the Commission's opinion on whether this is good or bad bill. **Mr. Fleisher** said yes, this is one bill they have testified on where on the House side they had a couple members specifically asked. **Chairperson McLaughlin** said she doesn't feel she has enough information to make a decision. **Mr. Fleisher** said he had testified to them the general feeling of the Commission that they expressed in their vote last month, which was supportive of legislation that helps the nonprofits compete.

Commissioner Forrest moved to endorse that bill and authorize the staff to represent to the Legislature that the Commission thinks it's a good idea. **Commissioner Heavey** seconded the motion. *Vote taken; motion carried*

with three aye votes; Chairperson McLaughlin and Commissioner Ludwig abstained from voting, saying they didn't have enough information to vote on the motion.

Mr. Fleisher said SB 5346 is the Horse Racing Commission's criminal history bill which is basically identical to the one that the Gambling Commission has before the Legislature. The Senate intends to move those two bills together. SB 5552 is a compulsive gambling education bill. It directs the Gambling Commission to implement a program for compulsive gambling education and awareness and it appropriates \$300,000 to the Gambling Commission from the State Lottery Commission. There's a lot of interest in the Legislature in doing something more for problem gaming. The exact language of the bill and what they're going to come out with is under discussion and debate. Currently, the Gambling Commission devotes \$300,000 of the budget for gambling education and awareness through a contract with the Washington State Council on Problem Gambling. During testimony he raised the question of what exactly is meant by the language used in the bill, which said, "The Commission shall adopt rules implementing a program." To him, this implied bringing it, in fact, in-house thereby creating staff and a section or division within the agency to deal with problem gambling. It is not clear to him that that's what was intended. He said he thought that the contract-type method that they have used in the past to have the Washington State Council actually do the work is what he thinks is intended. They are working on a draft on that.

Commissioner Forrest asked if the money the Gambling Commission puts income through the Commission as a conduit to the Council on Problem Gambling or do they receive independent appropriation. **Mr. Fleisher** said they do not receive independent appropriations. They are a nonprofit, non-governmental agency. Through a personal service contract, the Commission provides them with a significant amount of their revenue. They also raise revenue from other sources. **Commissioner Forrest** said the Commission is a conduit for the licensees.

Mr. Fleisher said there's another draft of this bill having to do with this same issue which the commissioners received from Vito [Chiechi] with the Recreational Gaming Association that also deals with money from the Lottery as well as this Commission. It also has the Gambling Commission establish programs of education and awareness for problem gambling. From a funding point of view it would require the Gambling Commission to annually disburse 10 percent of any surplus moneys in our account for the purposes of problem gambling, which would be a significant amount of money. **Chairperson McLaughlin** asked if the fiscal year would be the date of the surplus. **Mr. Fleisher** said that was a good question and staff need to get together with them to clarify exactly what they are attempting to do here. It doesn't say when the surplus would be figured.

Commissioner Forrest said that the way that is stated is a terrible way to do it because it is saying if we have a lucky year, they get a lot of money; if we have a bad year, we don't get any money. That is an awkward situation for the Commission to operate under with a fluctuating, uncertain kind of budget. He said it furthermore put them with a conflict of interest in a way. He said it should be dollars and not a percentage of some "surplus" because the Commission surplus could melt away – one big scandal and our investigation costs would go zoom. **Mr. Fleisher** said if it were a percentage of revenue rather than a percentage of surplus, that would at least be more related to the . . . **Commissioner Heavey** said 10 percent of the license fees.

Commissioner Herbold said it requires the Commission to work with the Horse Racing Commission and the Lottery Commission to come up with a program to implement a program. She has a concern about how burdensome that would be trying to pull all of these entities together to come up with something everyone agreed upon and, secondly, what would it do to the existing Council on Problem Gambling. It sounded to her like it was taking away from them the things that they're doing now. **Mr. Fleisher** said those are questions that need to be answered for him, too. Another thing they discussed in committee was to what extent there was going to be a state program as opposed to using someone with the Council. One thing that they don't do with the funds that the Commission provides is using them for actual services. There's some discussion about the appropriate place for a state program, i.e., in the Department of Health, as a service agency, rather than the Gambling Commission, as a regulatory agency. If the Commission has thoughts on that, he could relay those as well.

Commissioner Heavey said it seems to him that requesting the people who regulate gambling to be involved in providing social services is well beyond this Commission's expertise. He said it also leads to potential of abuse, not of the licensees, but of those that provide the services. They have seen a lot of articles in the paper about making money available to provide services to private contractors, which the Commission would have to do and

there's been a lot of abuse in that field because it's so difficult to regulate. There's a long history of abuse when providing services to contract when there isn't the ability to provide the services through the agency itself. He thinks the way they were doing it is more beneficial and if there are programs to be used, the Problem Gambling Council should be the one to decide.

Commissioner Forrest said if someone has a broken arm, it's easy to tell when it's been fixed; however, you can treat somebody forever about problem gambling and you're not going to know whether it's fixed or not. He said it seemed to him that the outcomes and treatment is so uncertain and there is such little theoretical basis at this time, and he does not think the Commission should be involved in that. If the state wants to have DSHS do it, that's up to them. The general program of the Commission calling for awareness and having signs and hotlines and all of that is fine, and one can get some sense of whether something useful is being accomplished. **Commissioner Heavey** said he's not talking about the program that they're doing now where they give money to the Problem Gambling people. He does not have a problem with that and as a matter of fact, he supports that activity and has felt they didn't do enough in that area, but providing social services is not within the Gambling Commission's ability. **Chairperson McLaughlin** thanked the licensees for recognizing the problem and for being willing to spend their money on helping fix the problem, because they might have to raise their license fees 10 percent. She thought it was very nice that the industry has tried to come up with a way to help the problem gambler. **Director Bishop** said he echoes what the commissioners have said. Rather than saying to Vito Chiechi that the Commission is a party to this bill, he felt that any support they might give ought to be specifically stated how it should be done.

Mr. Fleisher continued his overview with SB 5745 would reduce the local tax on bingo and raffles from 10 percent of gross minus prizes to five percent. So basically cut the local bingo and raffle tax in half.

Commissioner Heavey said it puzzles him that people who are providing a governmental service are taxed. It's like taxing government. If the non-profit groups are providing services that government ought to be providing so this is an indirect tax so they tax the indirect tax. It doesn't make sense to him. **Mr. Fleisher** said the bill is sponsored by Senator Bauer, along with Honeyford, Wojahn, West and Long.

Under the provisions of **SB 5790**, the current tax rate can go up 20 percent. This bill says that "to the extent a city chooses to go over 10 percent, the amount that exceeds the 10 percent rates shall be distributed -- 75 percent to streets and roads and 25 percent to compulsive gambling." **Chairperson McLaughlin** said she finds that very interesting, because if Spokane, which is one she knows taxes at 20 percent, is using their money in the way they feel is best for the citizens of the City, how can the Commission or state government tell them how to spend their money?

Mr. Fleisher said SB 5815 reduces the tax on social card games from 20 percent of gross revenues to 10 percent of gross revenues. It cuts the social card game tax in half. There is one more tax bill not appearing on the list because it was just recently introduced. That bill reduces the tax on bingo from 10 percent of gross minus prizes to 10 percent of net profit. HB 1781 is a social card game bill that would authorize cities and towns to set the wagering limits for social card games up to the amount set by the state. He could be less than the state, but not greater.

Commissioner Forrest asked if the Legislature would want the Commission's opinion on that. **Mr. Fleisher** said the Legislature would welcome their input on any of this legislation and if they have messages they want relayed, he would be glad to. **Commissioner Forrest** said it was in fact the converse to that -- he's not so sure about that because that's a basic issue of state policy and he's happy to see the Legislature address it, but he's not so sure the Gambling Commission should take a position -- he's open to persuasion. **Chairperson McLaughlin** said she doesn't think they were being asked to take a position. **Commissioner Forrest** said that once Mr. Fleisher is there, they can ask him anything they want. **Director Bishop** said that last year the Commission voted to support a reduction in tax for the charities. That's the type of thing that the staff are typically asked. The staff tell the legislators that they have no position and that this is a policy issue, but if the Commission asks the staff to do it, then the staff would say the Commission supports reduction of tax for charities and state some of the purposes.

Commissioner Ludwig said staff might say if asked, "You'd better think long and hard about the broad impacts and geographical problems along with the state's preemption." **Mr. Fleisher** said it does raise the state

preemption issue. Currently, as far as licensing and regulation is totally preempted by the state and this would be an exception to that rule. **Chairperson McLaughlin** said they were not talking about what he was talking about. She said they were back on the local wagering limits. **Mr. Fleisher** reiterated what Director Bishop said that unless this Commission is on the policy issues, he will testify on the regulatory concerns unless this Commission is taken a position on the policy concerns, he'll tell the Legislature that they are neutral on that.

Chairperson McLaughlin said when she was first appointed to the Commission, she was given books to read on the history of gambling in the state of Washington. One of the reasons, in her opinion, that this agency was formed was because of the problems they had at the local government level with gambling. She thinks it has some significant problems that could grow from taking away the state's role in that particular instance.

Commissioner Heavey said they would be put into the position of enforcing local ordinances because they would have to enforce the wagering limits that were established by each jurisdiction. **Commissioner Ludwig** said that's why he said they should think long and hard about this. He said they could wind up like California used to be and nobody wants this state's gambling industry to fall into that morass.

Commissioner Herbold said she agrees; however, the Commission ought to look at why this type of legislation is being proposed. This, plus the zoning laws that some of the local jurisdictions are considering, is their reaction to what they see as a unprecedented growth in gambling as a result of the card room legislation that was passed. This is their way of dealing with it, so maybe the Commission ought to be thinking about, "Is there some way that we can assuage their concerns as we're looking at the card room rules that are going to be before us for the next few months."

Mr. Fleisher said that on the point that Commissioner Heavey raised, sort of the relationship with local government, one regulatory concern he will raise with them is the bill doesn't say so but he would assume the locals would still expect the Gambling Commission to be the enforcement agent, not the local police department. There should probably be something written into it to be sure if they go this way that there's coordination and notification to the staff so the agents know what to do out in the field if there are a series of different wagering limits.

Commissioner Forrest said he is not horrified that the cities might want to take a tougher line on gambling than the state takes. He said he does not think the Commission has a vested interest in a state preemption. It's a legislative decision and presumably Mr. Fleisher is right on the original cause. Maybe there was dissatisfaction with local regulation, but in general the closer one is to the action the better one's judgment. He is not sure that Spokane or Whatcom County can't size up the problem they're confronted with better than the Legislature, which kind of moves like a glacier. He'd be reluctant for the Commission to oppose this legislation because it might cause some more regulatory difficulty. If it does, then they'll live with it and have to adjust their fees accordingly. He doesn't think the Commission has a vested interest in state preemption. He thinks that's a legislative concern and they should be neutral about this bill. **Chairperson McLaughlin** said she doesn't have a problem with that. **Commissioner Ludwig** said that when he said they ought to think long and hard about it, that was a polite way of saying it's a dumb idea.

Mr. Fleisher said HB 1877 would authorize electronic bingo at the live bingo halls – it's the topic they discussed last month. It would allow electronic bingo devices that are pretty much like the Class II bingo machines currently available in the tribal casinos. It could be played only at bingo halls that have conducted live bingo for at least a year and would have to continue to conduct live bingo the way the bill is drafted as introduced. In other words, a charity or nonprofit couldn't open a hall strictly for machine bingo. They would have to have both running. **Chairperson McLaughlin** said the Commission has already taken a position on that. **Mr. Fleisher** said the last, bill HB1917, would repeal the house-banked card room legislation from 1997.

Commissioner Forrest said if a hot potato comes up, the appropriate thing would be to have a conference call or to contact the commissioners. He said it is always awkward, particularly when the Legislature comes down to the wire, when the Commission's input might make some difference. Since they meet monthly and are scattered around, the staff should not be hesitant to pull the commissioners together in one way or another.

Robert L. Ransom said he is with Cascade Bingo and has a question regarding to the comment about the house bill with 10 percent of the net bingo as he had heard him say. **Chairperson McLaughlin** said not net bingo. **Mr.**

Ransom asked if he were referring to the Association's HB 1742 which is reducing the bingo tax to 5 percent. **Mr. Fleisher** said yes, HB 1742 and HB 5745 reduced the bingo tax from 10 to 5 percent, gross minus prizes. What he was referring to was there was another bill that was dropped in which is HB 1904, which reduces the bingo tax from 10 percent of gross minus prizes to 10 percent of net income. **Mr. Ransom** said that was what they didn't quite hear. **Chairperson McLaughlin** asked if that is only on the games themselves; it isn't a manufacturer's or distributor's or that kind of thing. **Mr. Fleisher** said that was correct. **Commissioner Ludwig** said it would require a constitutional amendment. **Director Bishop** said he apologizes for his earlier comments; his comments were directed toward the tax bill rather than limitation on wagers.

ZONING AND MORATORIUM ORDINANCES

Ms. Patjens said there have been a lot of news articles lately regarding cities trying to impose moratoriums on gambling licenses. Some of them increase taxes specifically on card rooms and things of that nature. There is a letter from the Recreational Gaming Association setting forth some of the concerns that they have about actions that cities have taken. There is a letter from the city of Redmond that has recently imposed a moratorium and they want to know how the city can give this Commission input on different applicants. In their letter they reference that there is a currently pending application for a business in Redmond and how quickly that business would be up for approval. **Ms. Patjens** said there is also a recent article talking about Ron Sims wanting to get rid of the card rooms or have a moratorium on card rooms on the unincorporated area of King County. They checked yesterday and that has not been drafted and no action has been taken on it, but they were assured the staff would receive a copy of it. Jon McCoy handed out a memo yesterday talking about the different issues and the different laws that address what power cities and counties have. The law is very clear that the Gambling Commission is the exclusive licensing and regulatory jurisdiction for gambling, and the law also states that the only thing cities and counties can do beyond that in this area are things that have been specifically enumerated in the statute, which really equates to their not having a great deal of power in the area.

Ms. Patjens pointed out that a couple of cities, since the house-banked card rooms have been in existence have issued compete bans, which is the simple thing that they can do. It's very clear in the law and the City of Covington has done that, and the City of Bonney Lake is considering doing that. The staff has received a number of calls from cities and counties as the enhanced card rooms have begun to open asking what their rights are. Of course, the staff tell them they need to talk to their city attorney about what their rights are, but there are a few laws that the staff point them to as an area they might want to get started in. The City of Lakewood has issued a moratorium, but they have agreed to grandfather in a couple of businesses – The Ram and Jimmy G's are two businesses that have applied for enhanced card rooms and they've agreed to allow them if they were to be approved that they would be allowed in. The City of Redmond has a moratorium on building permits, but they are allowing existing businesses that already have their building permits if they want to do enhanced card rooms to continue. They sent a letter to staff wanting to know how they could give input to the Gambling Commission.

There are about five others who have done something that is pretty clear they can't do. They've issued moratoriums, but what they're telling people is that they now have to apply for a gambling license from them and that's how they plan to implement the moratorium. It's a moratorium on gambling licenses and then anyone who already had an established gaming business would have to go back and apply for an additional business license if they wanted enhanced card rooms. It is probably pretty clear that when the law says that the Gambling Commission is the exclusive licensing and regulatory body that they can't do any extra licensing of their own. The WSGC staff will contact the cities of Auburn, Tukwila, Shoreline, and Burien, which are four jurisdictions that have this new additional business license and let them know that there very likely is a conflict with what state law says.

Ms. Patjens wanted to make the commissioners aware of those issues and Mr. McCoy may have additional information that he wants to add. She said the staff may need some direction from the commissioners in the coming months on what they should do with a couple of these jurisdictions that are not granting business licenses. They're doing something else that's a little bit more in the gray area – whether the agency will go ahead and have them up for approval for the house-banked program or what action they are going to take.

Commissioner Forrest asked if someone comes in and applies for a license, whether it's to expand or to participate in a new program when they adopt a new one, is there any automatic way that the municipality that's concerned is involved or notified. One thing is if they're objecting it seems to him that they ought to come and object before the Commission. He wondered how that was actually handled. **Mr. Fries** said the staff has a list of all the cities that ban card rooms. **Commissioner Forrest** said so the Commission is not going to get caught where it has to issue a license that they're trying to ban, and so the problem is going to come up where they've got a ban that the Commission is dubious about. **Mr. Fries** said the cities can absolutely prohibit card rooms. **Commissioner Forrest** went on to ask what happens if the Commission gets one of these where they're trying to protect peace and quiet or not attacking the existing game, but wanting to ban new ones, what does the Commission do about that – do they ignore it or what? **Mr. Fries** said that's what they are trying to decide right now.

Chairperson McLaughlin said she recently met with a local jurisdiction and she said she would have to call and tell them she's wrong, but she assumed that when someone was bringing something for licensure that they let the jurisdiction know so that when it's before the Commission that there could be somebody in the audience if they were for or against it. That doesn't make sense if they don't know about it to even ask the question. **Mr. Fries** said that has not been the staff's procedure in the past. **Director Bishop** said it goes back to the basic premise in the statute that doesn't give a lot of discretion about whether you issue a license for those types of reasons. In fact it says that the Commission cannot deny a license that people are otherwise qualified. In other words, if it's a tavern with permits to do business as a tavern and the city doesn't prohibit gambling, then the way he reads the statute is the Commission would be prohibited from not issuing them a license if they qualified otherwise. **Chairperson McLaughlin** asked why, then, do they go through the formality of having it come before the Commission. **Director Bishop** said right now licenses must be formally approved. **Chairperson McLaughlin** asked again why must they go through that process if they cannot be denied. **Mr. Fries** said they could be denied, but not for that reason. They cannot be denied solely to limit the number of licenses that are issued. **Mr. Fries** said that, in essence, the local authorities are aware because the rules require that an applicant must have all licenses and permits prior to the Gambling Commission approval. This means health permits, use and occupancy, building permits, business licenses, and the like.

Chairperson McLaughlin said that's what she meant; there is a way of notifying so it might not be the police department that's notified, but the city's licensure department would be notified. **Mr. Fries** said that she was absolutely correct on the typical business license. **Chairperson McLaughlin** was relieved that she had not been misrepresenting the truth after all.

Commissioner Forrest said if they are going to expand their facility or something, then does this go to the building permit situation? Do they have to show the Commission a building permit? **Mr. Fries** said absolutely. **Ms. Patjens** asked Mr. Fries if the staff also sends a copy of the list that the Commission votes on at Thursday mornings of all the licenses. She asked if staff started sending that out to the local jurisdictions a few years ago because they have the issue with jurisdictions being upset that they didn't know a new licensee was coming in for taxation purposes? **Mr. Fries** said they don't send a copy of the list, but they do send a special notification to each county and city. They may identify the local police department or some other form of government there to do that. **Chairperson McLaughlin** pointed out that it was, however, after the fact. **Mr. Fries** said that is right, according to their rules, the licensee is required to notify them in writing prior to going into operation.

Commissioner Heavey said he wanted to back up a bit. He asked staff to verify if he was correct that the Commission doesn't have the right to deny a license to a tavern that's otherwise qualified. **Mr. Fleisher** said he thinks that the particular portion of the RCW that they are referring to says that "The Commission is prohibited from denying a license that ... otherwise qualified licensee for the purpose of limiting the number of licenses." **Commissioner Heavey** went on to say that if that were true, then the Commission can say "Well we can adopt a rule that says you have to be 500 feet apart." He asked if that was what he was telling him. **Mr. McCoy** said he thought that was correct. **Commissioner Heavey** asked about a limitation on every five miles? Or every fifteen miles? Or why not draw a circle around Seattle and get to the outer limits of Seattle and say, "Now you can't have a license within that distance of each other." He said that would be limiting licenses. When someone says

"any restriction on location" they would be limiting licenses. **Mr. McCoy** said he thought it would depend on the purpose of the limitation.

Commissioner Heavey said he did not think from what he has been told for the last five years that there is no purpose. Licenses cannot be limited, period – the number of licensees. They didn't say "except in the public interest, or, except this, or except that." They said the Commission cannot limit the number of licensees. The minute they start putting qualifications that result in a limitation of the number of licensees, they are limiting the number of licensees. **Commissioner Forrest** said he thought Commissioner Heavey was carrying that a little far. He said they require surveillance – financially that may mean some guy can't have a license, the Commission doesn't say because it requires certain equipment that the Commission is limiting licenses because he can't make it financially. **Commissioner Heavey** said that was a part of regulation. The Commission also says they have to buy tables and that type of thing. They have to have the capital to bring in the system, but when the Commission says "You have enough money, you have the qualifications, but you're within five feet or 15 feet or 500 feet or a mile and a half of another licensee, so therefore we can't license you." The Commission can set up a system whereby there are no more than five or six licensees per city – unless its a major city. **Mr. McCoy** said he thinks that's more of a nuance question than strictly speaking saying it's a limitation on the number of licenses. There's a balance there because the Commission does have the authority to set restrictions.

Commissioner Heavey said disagreed. **Mr. McCoy** said he thought there was a continuum and there's a balance between what is in the public interest and whether the purpose is limit licenses. **Commissioner Heavey** asked him to identify the public interest where there were two taverns located side-by-side that have card rooms that are owned by separate individuals. **Chairperson McLaughlin** said one would make it and one probably won't. **Commissioner Heavey** said the cities don't like it and he understands why cities don't like it, but they were coming to the wrong place. They should be going to the Legislature and pass legislation that gives the Gambling Commission the authority to limit the number of licensees within its jurisdiction. He said he didn't think they should be engaged in any of this indirection doing indirectly what they can't do directly. He said he doesn't have a problem with limiting the number of licensees or being located so many feet from churches, schools or whatever -- but he does have difficulty with the Commission establishing policy when they are not authorized to do so.

Ms. Patjens said one of the confusing things for licensees and jurisdictions is that under the liquor laws a city does have more of a voice in objecting to the issuance licenses and so cities are sometimes a little dismayed when they come to the Commission and they find out that they really don't have the same rights here and for that specific reason that the Commission doesn't have that type statute that says that the Commission is going to look at how close they are to a school or how close a business is to a church, et cetera. She said she didn't have anything more, other than if the Commission staff were able to determine when the Redmond one is up, if they want to pass it or not. **Chairperson McLaughlin** asked how many establishments were in the enhanced card room test project that do not serve liquor. **Ms. Patjens** said she guessed none. **Chairperson McLaughlin** said she doesn't understand what the city's problem is. They can handle what they need to do through that avenue. **Director Bishop** said that was where the problem was – they don't want to prohibit people from selling liquor or running restaurants. They want to prohibit them from having certain card rooms in those facilities.

Commissioner Ludwig said he was going to say it again – what they don't like are those big signs that say "Casino," especially when they're next door to each other or on the next block. **Chairperson McLaughlin** said there have been card rooms in cities and counties for years and most people are not people who play cards and don't even know it. **Director Bishop** said there was no doubt that it has definitely become more visible. **Commissioner Ludwig** said it was not the Commission's fault; it's the operators. **Director Bishop** said the operators certainly need to market their products, but the signs are everywhere.

Ms. Winslow said nobody is listed for Redmond before May. **Ms. Patjens** said that makes it more simplistic because they don't need to know exactly where they are at on it right now, but they will probably have to come back at a future time – maybe after Mr. McCoy has analyzed the ordinance a bit more and see what direction the Commission wants staff to take. **Chairperson McLaughlin** instructed Mr. McCoy to be ready to report on the city of Redmond's ordinance. **Mr. McCoy** said the grandfathering and treating existing licensees differently from new licensees and that sort of thing is one of the problems they are going to have to deal with.

Robert Tull, a Bellingham attorney who represents a number of licensees and in certain matters, the RGA, said it is important to recognize that right now this discussion and at the local and legislative level is a lot energy looking for a problem. He asked them to think back to the reviews they have done for Phase II in the tribal gaming area – about 10 so far – and in each instance there has been a contact by this agency with local law enforcement and in each instance there has been a report back that there are no significant problems. He said his imagination wasn't big enough at this point to want to figure out why there is such a flap. **Chairperson McLaughlin** said it was because they are visible. **Mr. Tull** disagreed and said that Ron Sims made a big splash – saying King County shouldn't have them – hasn't drafted anything yet. On February 3rd he had a big open meeting to discuss this. No one showed up who had a negative opinion about it. He said Vito had a great article in yesterday's Seattle Times regarding the subject.

Mr. Tull said he believes that as the jurisdictions come to understand that what they're experiencing in a few cases is this rush – everybody's going to jump in this business and get rich. He said it is just not going to happen that way. A few people are going to jump into it and lose their shirts; a few are going to figure out how to manage it. It is going to level out. Any jurisdiction that doesn't want to have card rooms can ban them and at a minimum they'll prevent future ones from coming in. Any jurisdiction that doesn't want to have card room sand restaurants be bigger than a certain area or have a parking lot bigger than a certain size or a sign bigger or brighter than a certain dimension and luminous quality, they can address those things. The reason they haven't done much of that so far is that most of them are just trying to be careful that they don't fail to react – they're tending to overreact – and he thinks it's going to smooth itself out.

With respect to some of the discussions about the local preemption versus state role – the betting limit bill, for example, **Mr. Tull** said it would be a crazy step because how can the Commission regulate through an elaborate, intensive program making very calculated and strenuous demands on licensees all sorts of reporting and supervision and monitoring and at the same time have some jurisdiction drop in a requirement – “oh, you can't have a bet larger than a buck, two bucks, three bucks,” or something like that. There would then be a true crisis – a real meltdown. There isn't a problem. Washington continues to be the best regulator of gambling in the United States. These card rooms are going to be the examples of highly regulated community-scaled types of facilities. He said there are all sorts of interesting policy discussions and he is only offering his views on them, but he thinks that there is a strong argument to made for this agency making sure that state preemption remains effectively in place and not eroded. It can only lead to a lot of problems. He said they would be seeing some things coming forward very soon with support of the industry that would make sure that there was notification under certain conditions. The analogy that he's thinking about suggesting is that of the local caucus approach that was developed some years ago in connection with the formation of compacts where there was an early contact made with all the local jurisdictions that may have interest. That's something that needed to be done from the legislative side or this Commission could install that type of notification requirement. He asked them to remember that it is not the same as the compact casinos going in because they are talking about businesses either expanding their activities through installation of a card room or they are talking about somebody building a new one. They can only go in the new instance into some place that allows food and beverage establishments. They can only build the size of building that's allowed in that zone. They can only have the size of sign that's allowed and so on down the list. He is not so sure there's a big problem, but with various aspects of his background he thinks it would appropriate to emulate that local caucus-type of approach. It would not hurt and most licensees would find it to be beneficial just as the tribes found it beneficial. He said there should be some serious thought given to making sure that local jurisdictions can make land use regulation decisions against the backdrop that they already have. To pay attention to that would allow them perhaps to decide that there were parts of town that could have food and beverage but shouldn't have gambling perhaps of any type. Or food and beverage is okay here but not with dancing. There are all sorts of variation. **Chairperson McLaughlin** said she did not go along with that. **Mr. Tull** said that he was not anti-dancing either, but in his community of Whatcom County they have one city that does prohibit dancing in connection with the service of alcohol.

Mr. Tull thanked the Commission for listening and urged them, as the intentionally-separated-from-the-daily-local-fray-regulatory-agency, to proceed very deliberately in terms of responding to some of these concerns. How many cities have written this Commission and asked for information or expressed concerns? How many have called Mr. Bishop to say what's going on? He suspects (he hasn't asked him) that it's a relatively small number – that a lot of them simply want to respond and react. Some of the towns that have been working on

these things have already begun to moderate their concerns a little bit as they see what's really going on. He said they just have to let some of this sift through and he urged the Commission avoid any type of overreaction. Overreaction is prompting a lot of the debate and discussion right now. Certainly there is increased opportunity for some good working relationships with local government as a goal.

Commissioner Ludwig said he liked Mr. Tull's suggestion for a local caucus meeting. He wondered if Mr. Tull was suggesting one as each new application comes up for consideration. **Mr. Tull** said yes. **Commissioner Ludwig** said his concern would be whether the staff would have time to do that. **Mr. Tull** said one of the questions would be whether the staff has to attend. An analogy that he is familiar with in his land use experience is that of a neighborhood meeting. In some instances and for almost any type of project, its proponents have to send out a notice and meet with the neighbors before the governmental process really gets going. **Chairperson McLaughlin** said that when some of the commissioners visited Big Al's, they were told that there was a neighborhood meeting and the complaints had been satisfied and there really wasn't very many neighbors that were complaining. She suggested that every county or jurisdiction have something like that for businesses going in. **Mr. Tull** said the majority probably does not. **Chairperson McLaughlin** was surprised. **Mr. Tull** said in those jurisdictions with which he is familiar, fewer than half have an explicit requirement of some sort of pre-application process or pre-application meeting. Many have a notice requirement in connection with certain discretionary decisions, but the idea of meeting with one's neighbors just makes sense. He thinks many licensees have done so on their own anyway. He knows of some that have. **Chairperson McLaughlin** asked the owner of Big Al's to come up and tell the audience of his experience following Commissioner Heavey's questions.

Commissioner Heavey pointed out that Mr. Tull was well acquainted with zoning regulations and secondary uses and for the benefit of the audience he explained that in some jurisdictions. For example, they may allow gas stations as a primary use, but they don't want those gas stations to have the secondary use as an auto repair shop. Or they may allow as a primary use, a food and beverage establishment, but not allow it to have the secondary use as a card room, gambling or whatever. He asked Mr. Tull if they can do that. **Mr. Tull** said he knew some jurisdictions have looked at that and are looking at it as a way of distinguishing and he thinks they can get there for sure by looking at size, and parking-types of things. The collision would be between the notion that by simply defining uses more specifically and the notion that that constitutes a step into the realm of regulating gambling other than the step allowed by statute which is yes or no. He thinks that one of the things being discussed at the RGA is that that type of clarification of the local jurisdiction's zoning power would be appropriate. If the community says no gambling of a certain type, then that would apply. If they say only in a certain part of town, that today would be in question, but some legislatively fine-tuning it might work, then they could carry forward with the ordinances such as Renton has had for over a year, which suggests that in certain parts of town it's okay and in other parts of town it is not. He thinks that that's something that the Legislature could grant to local jurisdictions and they could then probably start de-stressing a little bit about it. That's what he is going to work on over the next few days – the possible implementation of a local caucus-type approach, although he thinks that is within the grasp of the Commission already. Secondly, the possibility of making it clearer than it is today that a regular zoning type of approach might be available if local jurisdictions want to take it. That won't clear up all the issues or questions, but that goes back to his original thesis – that there aren't any real problems and that people are going to eventually settle down. Letting them know that they can deal with the externalities more clearly than they might understand today is probably a worthwhile step and its one that he thinks there will be some support for.

Chairperson McLaughlin asked if would be out of line to just send a letter to either the mayor or county executive of the jurisdictions saying the Commission is considering a license for so-and-so at such-and-such an address. **Mr. Fries** said that if the Commission wanted staff to do it they could. **Commissioner Ludwig** said that might give them the false impression that the Commission is looking to them for approval or disapproval or that they would have a veto power and perhaps create a bigger problem in a way. He said that is simpler than what Mr. Tull had suggested regarding some kind of local caucus. **Commissioner Ludwig** said he liked it because they know it worked very well with the tribal compacts. **Chairperson McLaughlin** said the local caucuses as she remembers it could include the chief of police and everybody else that was affected around there and it's much more formal. She said she didn't know that they weren't informing them, but staff did say they were contacting them through the building departments or that kind of thing. **Mr. Fries** said they were required to give that type of notice for all licenses and permits. **Commissioner Forrest** said the Commission gives them notice as a

practical matter, but they do not receive a formal notice. They would know what's coming up and if they wanted to come to the public meeting and say no, they would have a chance to do it. **Mr. Fries** said yes.

Randy Williams, Big Al's Casino, said he thinks there has to be some vehicle for communication with the local jurisdictions, because when the casino puts out a million and a half dollars on an investment and all of a sudden they come in and say they don't want them in the community, it causes problems for everybody. In terms of what happened to them, it was a media problem, not necessarily a community problem. There was one daycare center that called the media and said they didn't want the casino near them, so the media did a story on the casino and said all the surrounding businesses are complaining about them. They knew that wasn't true and they asked for names of complainants. She mentioned a coffee stand that was located next to them. The casino knew that wasn't true because the same landlord that leases to the coffee shop also leases to the casino. There are two daycare centers in the area. The media said the other daycare was complaining as well. The same landlord built that after the casino started construction on the casino. So the casino asked the landlord about it. The landlord then called the daycare to find out why they were complaining only to find out that they were not complaining, but in fact saw it as an opportunity for more business for them. That was the problem.

Chairperson McLaughlin asked him if they had had a community meeting. Mr. Williams said no, it was only an issue created by the media.

Bob Ransom, board member of Cascade Bingo and a councilman for the city of Shoreline, said they passed a moratorium on Monday. It also applies to nonprofits, all enhancements, everything. His concern is reflecting some of the other statements that have been made here. It was Ron Sims and the sheriff's department coming down stating we have a public safety emergency and you must pass a moratorium to prevent any enhancement and stopping all forms of gambling. As indicated here, there have been 10 studies and he has seen other studies that indicate gambling does not increase public safety problems. As a board member of a nonprofit, he knows that they have not had any problems in the four years he has been on that board. The only problem they have had is on a very occasional basis when they called the police office getting them to show up. There isn't a public safety problem, but the sheriff's people are coming to your city councilmen and saying there is a problem. The councilmen are going to lean to the sheriff and say, "Well, I guess we better pass a time-out as a moratorium because we don't know and we're going to defer to the police. This is where they need the Commission's studies and independent agents to reflect that that is not the case, it isn't true. He thinks it is very important both to the nonprofits and to the commercial gaming that that position has presented.

Commissioner Heavey said that, in 1973, the King County Sheriff's Department came before the King County Council in opposition to card rooms and their argument was that card rooms would encourage professional gambling because they'd get started in the card rooms. He just read an article that said the most prevalent illegal professional gambling was associated with football games. So he asked the sheriff's office why they didn't want them to ban football games in King County. He has yet to receive an appropriate answer.

Mr. Fleisher said that on February 25, the House Commerce and Labor Committee is having a hearing particularly on enhanced card rooms to which they will be inviting cities and towns to come in and tell the committee what their concerns are. They will also be inviting local law enforcement agencies from areas that have had mini-casinos in their area. **Chairperson McLaughlin** encouraged the other members of the Commission to attend because she will be out of the area at that time.

RECESS

RULES UP FOR DISCUSSION AND POSSIBLE FILING

Chairperson McLaughlin said the Commission will be hearing these rules for the first time. She invited the Commission to feel comfortable making any amendatory language changes that they might think is appropriate. It does not need to be formally. They can let Ms. Winslow know and if three of the commissioners agree that would influence the change.

Ms. Winslow said she planned to present each rule at this meeting and in the future, if they preferred, she could present these rules in combined fashion rather than going over every one of them individually. **Chairperson**

McLaughlin said she thought that would be good idea. **Ms. Winslow** said she would await their direction at the next meeting.

CARD ROOM RULES

A. General Card Games

- a) Amendatory Section WAC 230-40-010 – Types of card games authorized
- b) Amendatory Section WAC 230-40-015 – Rules by which the authorized card games shall be played
- c) Amendatory Section WAC 230-40-030 – Number of tables and players limited
- d) Amendatory Section WAC 230-40-050 – Fees for Card Playing – Method of assessment and collection – Maximum fees
- e) Repealed Section WAC 230-40-060 – Persons shall not share in winnings or charge additional fee for playing cards
- f) Amendatory Section WAC 230-40-070 – Licensee to furnish all cards, chips and other services
- g) Amendatory Section WAC 230-40-120 – Limits on wagers in card games
- h) Amendatory Section WAC 230-40-125 – Washington blackjack – Rules of play – Wagering limits
- i) Amendatory Section WAC 230-40-130 – Wagers to be made with chips only
- j) Amendatory Section WAC 230-40-150 – Side bets prohibited
- k) Amendatory Section WAC 230-40-160 – Wagers by other than participants prohibited
- l) Amendatory Section WAC 230-40-200 – Participants to compete on equal terms – Deal to rotate among players
- m) Amendatory Section WAC 230-40-225 – House dealer allowed in certain games
- n) Amendatory Section WAC 230-40-400 – Hours (~~limited~~) for card games – Procedures for changing hours
- o) Amendatory Section WAC 230-50-010 – Adjudicative proceeding – Hearings
- p) Repealed Section WAC 230-40-900 – Public card room enhancement program – Pilot study and test

Ms. Winslow said the change on WAC 230-40-101 Types of card games authorized was made to incorporate house-banked games with other authorized games. One minor change will be the deletion of Red Dog under subsection 13g). Bacarrat was removed prior to this printing.

A change was made in WAC 230-40-015 Rules by which the authorized card games shall be played to require games not referenced in Hoyle to be played as approved by the Commission. **Chairperson McLaughlin** said that means Hoyle is first and the Commission is second. **Ms. Winslow** said that was actually correct and the staff is looking into using another guide that's more current because Hoyle's isn't readily accessible any longer.

Under WAC 230-40-030 Number of tables and players limited, the change was to increase the allowed tables to 15 and to limit the players to 10 for non-banked games and seven for banked games. However, it also allows up to nine spots for wagers for banked games. **Commissioner Forrest** asked where the number 15 came from.

Ms. Winslow said she doesn't recall how the Legislature came up with the 15 tables. **Chairperson McLaughlin** thought it had to do with commercials saying they needed that many in order to make it profitable. **Ms. Winslow** said she would see about getting some history on that.

Ms. Winslow said the changes to WAC 230-40-050 Fees for card playing – Method of assessment and collection – Maximum fees are to establish, authorize methods and amounts to assess fees, to limit the collection methods allowed, and the manner in which collections are made.

WAC 230-40-060, Persons shall not share in winnings or charge additional fee for playing cards was repealed since the operators will now be allowed to share in winnings.

WAC 230-40-070 Licensees to furnish all cards, chips and other services. Changes made here were to clarify procedures allowed for non-house banked and house-banked games in furnishing chips, cards, and tiles. The primary emphasis is requiring chips and cards to be purchased from licensed manufacturers and to include the house name.

The changes to WAC 230-40-120, Limits on wagers in card games are to establish wager limits for non-house banked and house banked games. For non-house banked games, no more than five betting rounds are allowed with a maximum wager of four, which includes an initial wager plus three raises. For house banked games, Phase I wagers cannot exceed \$25 and Phase II cannot exceed \$100. In addition, wager limitations were placed on player-supported progressive prize contests in the amount of one dollar. Additional changes included the prohibitions on wagers by other than players were included in this rule and moved from other rules.

WAC 230-40-125, Washington blackjack – rules of play – Wagering limits. The changes made to this WAC were to require fees to be assessed by time only and collections to be made through the direct collection method. Other changes include a \$500 limit for the minimum banked to be established by house rule. It further requires the bank to pass around the tables and allows insurance bets for play.

Commissioner Ludwig asked about the way cards are dealt in blackjack or 21. He said most every game he has seen follows the rule of the player's hands are both face up, but in some card rooms, casinos, countrywide, it varies. He wondered why there was a standard rule as opposed to letting the player have one card down. He read in subparagraph 5 "The player begins with the dealer dealing one card face up and each covered player including himself/herself one more card face up to each covered player and then one down to himself or herself." He said he did not have any preference but he just wondered why. **Director Bishop** said the game is played either with cards either up or down. They have always in Washington State in fundraising events required that the cards be up and the player can't touch them. It is a much better game from that perspective in the fact that the cards can't be manipulated in any way – scratched or crimped or anything along that line, so the best rule is that the cards cannot be touched. These are regulation in surveillance. Since the dealer has certain rules he must abide by – in other words he must hit 16 or less – having knowledge of the players' cards does not give the house any advantage. If he looked around the table and say well everybody's got 12, and I've got 13, I won't hit. Now he has to hit up to 17, so he has to stick on 17 or hit 16 or less.

Chairperson McLaughlin said it would seem to be more fun with the cards face down. **Director Bishop** pointed out that there are regulatory issues with that and the fact that players also manipulate cards, especially back in the days when most of the games were single deck. If a player scratched all the aces, then they would know where there was an ace, they could know how many were out of the deck, there were other ways of marking cards so that the player knew maybe to take a hit on the next card. The best rule for security and to keep the game fair is to keep the cards out of the hands of the players.

WAC 230-40-130 Wagers to be made with chips only. The changes were made to this WAC to limit the amount of coin allowed for play in house-banked games. It also does not allow chips from other card games to be accepted by an establishment.

WAC 230-40-150 Side bets prohibited. This change was made to include the language from this rule within the wagering limits rules. So it was just simply a movement of the language. [end of Tape #4-B]

WAC 230-40-225 House dealers allowed in certain games. Changes were made to require dealers for certain games and to further eliminate house dealers in Washington blackjack.

WAC 230-40-400 Hours for card games procedures for changing hours. The changes that were made to this WAC were to limit multi-ownership card rooms within one mile of one another to the same operating hours. It also provides for the terms for extended hours. How a denial will be handled on the process for a brief adjudicated proceeding if there is a denial or a revocation. **Chairperson McLaughlin** said yesterday they talked about hours and she doesn't see what difference it makes whether an operator owns an establishment or not if they are too close together she thinks they all should be the same hours. Ms. Winslow said that would be what this rule would effectively do – require that . . . **Chairperson McLaughlin** said no, her question was, just like the Liquor Control Board has a closing time of 2 a.m. for drinking, why doesn't the Commission have set hours for gambling establishments? **Ms. Winslow** said she could tell her based on the discussion that they heard yesterday that card players play different hours and . . . **Chairperson McLaughlin** said they could go to bed like everyone else. **Ms. Winslow** said that some of them like to go to bed at different times and poker players apparently like to play earlier in the day and blackjack players like to play later in the day and that's why they are seeing requests for different operating hours. **Chairperson McLaughlin** said that may be what they like to do, but what she is asking is, is there any possibility of just having a blank time where everybody has to take time out, go home, clean up their establishments, so on and so forth. **Ms. Winslow** said that was actually how they formerly operated and although it is easier to regulate in that fashion, but the Commission decided to be flexible and allowed some variations on the time-frames for closing. **Commissioner Forrest** said as a practical matter, what is the current pattern – do people use about the same or . . . **Ms. Winslow** said it was all over the board. **Commissioner Ludwig** asked if tribal casinos get to pick their four hours. **Ms. Winslow** said she is seeing heads shake yes. **Chairperson McLaughlin** said that was because generally there's only one tribal casino in any geographical area. **Director Bishop** said there is a caveat with the tribal casinos in the fact that with the

concurrence of local jurisdiction local enforcement so if local law enforcement . . . **Chairperson McLaughlin** asked if their was the same for commercial establishments? **Director Bishop** said that was one thing that he is requesting they change in this rule is not the absolute concurrence, but rather that he be allowed to consult with them to get their input because of the situation they had earlier. **Chairperson McLaughlin** said it seemed to her that an establishment would not like their players going to another place to keep playing – they might like that place better than the one they came from and continue there. She said she was just throwing these ideas out for consideration. **Commissioner Forrest** asked where the 20 hours came from. All of these kind of things have been there forever – he wondered if that were long term or what. **Director Bishop** said that was in the first rule package that was ever passed by the Commission regarding social card games in 1974 and it had “shall be closed from 2 a.m. to 6 a.m.” **Mr. Fleisher** said those were the same hours as the liquor laws required them to be closed from 2 a.m. to 6 a.m. **Director Bishop** said not to confuse that one. They’re allowed to have so many extra hours deals in a year – not just automatically bank them. **Chairperson McLaughlin** said she was going to call on Mr. Tull, but she was going to give him exactly 60 seconds. She then asked him if he could do it in 60 seconds. **Mr. Tull** said he could or under that.

Mr. Tull said his comment was just for historical purposes. One of the reasons why the post 2 a.m. operations were allowed was that there was a frequently-occurring phenomenon of illegal games recruiting players from card rooms sat closing time. Another justification that was brought forward at the time and was supported by local law enforcement as best he can remember is that the idea of letting people play on after liquor closing for a few hours was quite welcome. And finally, there are many places in the state where shift workers working graveyard would, like any other person who wanted to play cards to relax, needed to do so after work rather than during work, and so it worked into it. **Chairperson McLaughlin** said shift work usually changes around 11:00 and she agreed that maybe it should be 4 to 8 so that could have something to eat. **Mr. Tull** said his final comment is that in some of the compacted casinos the Class III games, but the poker rooms are allowed to operate 24 hours. **Commissioner Forrest** wanted to know if it was just to match the liquor hours, not a policy to protect the gamblers who needed to go home and cool off. **Mr. Tull** said that was correct. **Commissioner Forrest** said so if they aren’t doing that, his people would just as soon run 24 hours. **Mr. Tull** said he was sure some operators [microphone was cutting in and out and I couldn’t make out what he was saying so I just put in here what you had typed] . . . said Mr. Bishop had certain regulatory goals stating that there be a closure period. Pull tabs can operate 24 hours. **Chairperson McLaughlin** said one card room owner told her that they needed that four hours to count the money and so forth. **Chairperson McLaughlin** said she would need two more votes.

Commissioner Ludwig local conditions may be important, but how about all of the operators in that local area having the same hours. **Mr. Tull** said his suggestion is the historical point about people recruiting for illegal games would come up; secondly, the convenience of people who happen to be on different schedules would come up; and thirdly, it’s been his recollection that there’s been almost no incident of law enforcement complaint about the later closing or earlier opening. It’s never been law enforcement at the local level or regulatory issue at the state level type of problem. What Ms. Winslow was referring to about the difficulties is that it’s a staffing difficulty to make sure that there are people making periodic checks at all hours of operation and not just during office hours. By now they are used to that type of burden.

Commissioner Heavey said he hated to play the cynics role here, but it is his observation that there is a general attitude that gambling is bad, so what certain things are done to minimize the effect of gambling. Four-hour closure is set up and that kind of thing and it’s kind of the reverse of hunting a fly with an elephant gun -- rather they are hunting elephants with a BB gun. He said it doesn’t accomplish anything – it doesn’t cut down problem gambling, doesn’t improve enforcement, it doesn’t do anything, but it satisfies the little desire to say, “Oh, well, we’re going to let these people gamble 24 hours a day because it’s bad for them – look what happens in Las Vegas and Reno!” **Chairperson McLaughlin** said it is pretty bad. **Commissioner Heavey** said there is this split personality when it comes to gambling. **Commissioner Forrest** asked in connection with the problem gambling meeting the other night, after the commissioners left he wanted to know if this come up – do they think this is a significant factor that somehow that we’re protecting people from themselves by closing down for four hours. Or is it a non-issue in their world?

Ms. Winslow said that they had not been advised of that to the best of her knowledge by the people from the local council whether this would impact. **Chairman McLaughlin** said she may or may not get any support for concurrent hours, but she thought she would bring it up. **Commissioner Ludwig** said she might get some

support. **Commisisoner Heavey** said it was one of these things “Been there, done that.” Once they had concurrent hours and they went away from it – why go back? What’s the purpose? **Chairperson McLaughlin** asked why one looked at anything now and then? **Commissioner Forrest** wondered why they were so dumb to go away from it in the first place? **Chairperson McLaughlin** said she thought all they were asking is that staff, look at it.

Ms. Winslow continued her summary with WAC 230-50-010 Adjudicative proceedings – Hearings. The change was to update procedures for a brief adjudicated proceeding to include anything for denials or revocation of extended hours. **Chairperson McLaughlin** asked if that was in referenced to the Spokane deal, too. **Ms. Winslow** said that caused them to take a look at their process a little bit more closely and make sure that any loose ends were taken care of.

WAC 234-40-900 Public card room enhancement program – Pilot study and test is a repealer. This change is made to conclude the pilot study.

A. Player Supported Progressive Jackpots

- a) New Section WAC 230-40-600 – Authorization procedures for player supported progressive prize contests
- b) New Section WAC 230-40-610 – Player supported progressive prize contest – Restrictions – Manner of conducting – Approval

Ms. Winslow said they would now cover WAC 230-40-600 Authorization procedures for player supported progressive prize contests. This new section is developed to outline requirements for the authorization of player-supported jackpots. **Chairperson McLaughlin** said she and Director Bishop can attest that one was won in one card room while they were there – a big one. The person who won it was stunned. Everyone else was making noise. It was about \$35,000. **Director Bishop** said it was more than he could fathom.

WAC 230-40-610 Player-supported progressive prize contests – Restrictions – Manner of conducting – Approval. This new section is to outline procedures for conducting player-supported jackpots to include how to fund them, the custodian requirements, prize requirements, the limitations on who can play, security requirements, and then how to handle disputes

A. House Banked Card Games and Additional Requirements for PSJ’s and Specific Fee Assessment and Collection Methods

- a) New Section WAC 230-40-800 -- Adoption of rules for house banked card games
- b) New Section WAC 230-40-805 -- House banked card games - Authorization procedures
- c) New Section WAC 230-40-810 -- Authorization procedures for phase II wagering limits for house banked card games
- d) New Section WAC 230-40-815 -- House banked card games - Management and accounting control structure – Organization of gaming operation
- e) New Section WAC 230-40-820 -- House banked card games – Audit function – Required procedures
- f) New Section WAC 230-40-825 -- Closed circuit television system requirements and procedures
- g) New Section WAC 230-40-830 -- Cashier’s cage – Requirements
- h) New Section WAC 230-40-833 -- Cashier’s bank and minimum bankroll
- i) New Section WAC 230-40-835 -- Accounting controls for cashier’s cage
- j) New Section WAC 230-40-840 -- Drop boxes – Requirements
- k) New Section WAC 230-40-845 -- Procedures for exchange of checks submitted by gaming patrons at cashier’s cage
- l) New Section WAC 230-40-850 -- Procedures for accepting cash at house banked gaming tables
- m) New Section WAC 230-40-855 -- Acceptance of gratuities from patrons for house banked activities
- n) New Section WAC 230-40-860 -- Table inventories and procedure for opening tables for house banked card games
- o) New Section WAC 230-40-865 -- Procedure for distributing gaming chips and coins to house banked gaming tables – Requests and fills
- p) New Section WAC 230-40-870 -- Procedure for removing gaming chips and coins from house banked gaming tables – Requests and credits
- q) New Section WAC 230-40-875 -- Procedures for closing house banked gaming tables
- r) New Section WAC 230-40-880 -- Count room – Requirements
- s) New Section WAC 230-40-885 -- Counting and recording contents of drop boxes – Procedures
- t) New Section WAC 230-40-890 -- Signatures – Requirements

WAC 230-40-800 Adoption of rules for house banked card games. This new section requires rules submissions for all card games to be played and what must be included as part of those submission is also outlined in this WAC. **Chairperson McLaughlin** asked what a card peeking device was. **Ms. Winslow** said that is the device that attaches to a table which allows the dealer to see the card and determine if there is a blackjack or not.

Director Bishop said the dealer can't actually see it, but it gives a signal if it is a blackjack, but there would be no way to tell what the card was. **Ms. Winslow** said the purpose for that device is to prevent them from peeking at the cards which would allow the players to see the cards, so it prevents a lot of potential for cheating.

WAC 230-40-805 House banked card games – Authorization procedures. This new section outlines the requirements for the authorization of house-banked games, specifically the internal controls submission and the review process, the undercover investigation funding and details on promotions and schemes. The director has asked that they move this rule within the licensing rule to coordinate this with the licensing process and it's likely that they will see some movement on this next month within the licensing rule.

WAC 230-40-810 Authorization procedures for phase II wagering limits for house banked card games. This new section outlines the requirements of a gaming operation prior to being allowed approval for phase II wagering. It includes six months as phase I, compliance with rules and regulations, and payments of all applicable taxes. After each staff person conducts a review, a report is submitted to the Commission for approval.

WAC 230-40-815 House banked card games – Management and accounting control structure – Organization of gaming operation. This new section was developed to outline the control environment required by operators and it includes a system of internal and administrative controls. It establishes the gaming operation departments and also a minimum level of supervision within the organization.

WAC 230-40-820 House banked card games – The audit function – Required procedures. This new section was developed to enhance the licensees' control environment by requiring an audit function. There are two versions of this WAC, one of which requires the work to be performed by a licensed CPA and the other requires that it be performed by staff. They have received two adverse comments on these proposals. One was in writing and was a concern about the number of hours. The other comment was a concern that addressed the limitation on who could perform these duties. Staff plan to work with the two individuals who expressed their concerns, or at least explore the issue further, but they will remain focused upon achieving their objectives which is enhancing the control environment.

Commissioner Herbold asked if this has been discussed in the study groups so they would know if anyone else had problems with these provision. **Ms. Winslow** said this particular WAC has been discussed all along; however, the versions that came forward during this meeting were just changed prior to their last get-together. They discussed this at length with the rules committee that they worked out with the licensee groups and the people from that committee were the ones that actually recommended based on the discussions that they had that staff come forward either with the Gambling Commission doing the work or a licensed CPA. They thought that based on those recommendations they would come forward and see what their concerns were.

Commissioner Herbold asked if at some point the staff will pick one or the other for the Commission to consider further. **Ms. Winslow** said that was correct.

Commissioner Forrest asked how often this audit function takes place. **Ms. Winslow** said the site is supposed to be visited at least quarterly and they have a minimum limit to be spent on premises per quarter. One of the things that was discussed with regard to this was if they use professional individuals such as licensed CPAs they could remove the limitation of the 40 hours because their professional standards would require that they use due professional care and adequately plan to do the work with a sufficient number of hours to make a report. They risk their license if they don't do enough to adequately report on the activity. **Chairperson McLaughlin** asked if this was the rule that they received a letter on. **Ms. Winslow** said that was correct.

Commissioner Heavey asked who the CPAs were and if they knew anything about gambling. **Ms. Winslow** said they have received reports from licensed CPAs that have worked within tribal gaming establishments in Washington. **Commissioner Heavey** said he did not doubt that there are CPAs out there that know gambling as well as members of the staff knows it, but it doesn't say CPAs who have any knowledge of gambling – it just says CPAs. **Ms. Winslow** said that if a CPA takes on an engagement, they're required by their professional standards to have the knowledge to do the work. If they don't, then they risk their license. **Commissioner Heavey** said that means somebody comes along and complains, then a complaint is filed with the licensing board, the licensing board then holds a hearing, then there's a determination of whether the violation was bad enough to revoke their license, and then they go to court to challenge all of that and three or four years later, the CPA is no

longer allowed to do gambling audits, and they are right back where they started. He thinks that if they are going to use CPAs, they should be approved by the Gambling Commission. **Ms. Winslow** said that had been suggested by some of the CPAs that are currently working within the industry and it is certainly something that they could look at pre-qualifying them to make sure that they have adequate knowledge in this particular arena. **Commissioner Heavey** said he didn't see how they could go to CPAs without doing that. **Ms. Winslow** said they could look at it.

Chairperson McLaughlin asked if there were others who felt that way.

Commissioner Forrest said the rule starts out with number one, which says they're evaluating the system but then the other paragraphs talk about an actual audit and if they are talking 40 hours every quarter, they are talking about a real audit where somebody goes back and checks the original entries and so forth. **Ms. Winslow** said their focus is on the internal controls as opposed to looking at the financial statement itself. The term "audit" can be just the procedure that's done to look at the internal controls. It's kind of a misnomer. **Commissioner Forrest** asked if the internal controls were something that have to be filed with the Commission and approved by the Commission. **Ms. Winslow** said that was correct, but whether they comply with them on a regular basis is what the heart of this is about. **Chairperson McLaughlin** asked if they have to do this every three months. **Ms. Winslow** said quarterly. **Commissioner Forrest** said he didn't think it should take 40 hours and it doesn't have to be done every three months to review the paper rules. The issue is, is the licensee following those rules and so that means a true audit and the average CPA reports that this is un-audited and is based on materials submitted by the owner and so forth and he wanted to know if this was what they were doing now that somebody can really make an old fashioned audit in which every check and every receipt is accounted for.

Ms. Winslow said no, what this auditing function would be would be to look at the internal controls – not the financial statements – the people would be focused on making sure that the organization was complying with their internal control document and also complying with the WACs. **Commissioner Forrest** asked how they would find out if they were complying with the approved controls without going back and checking the original transactions. **Ms. Winslow** said the transactions would be a small part of it, but they are not reporting on whether the financial condition of the organization is great. They are reporting on the control process as a control structure, the environment to make sure that adequate reporting can. **Commissioner Forrest** said he does not see that the CPA reviews will accomplish anything because the controls on the face of them are adequate. They've been submitted and approved by the Commission and eventually he suspects will be very standardized – everybody will use about the same pattern of internal controls. He wants to know what the person does who goes in there and spends a week.

Commissioner Heavey said he spent five weeks going into that as judge, and it comes down to a 1905 case from the United States Supreme Court that says accountants do not have to be bloodhounds and sniff out every problem. And that's what Commission staff does – they're bloodhounds and they sniff out every problem, and to meet the accounting standards CPAs don't have to do that. They don't check every check or look at every transaction. **Ms. Winslow** said that was correct.

Commissioner Forrest said that was a real audit. **Commissioner Heavey** said even with a real audit they don't look at every check and embezzlements take place and accountants are not held accountable because they have met the accounting standards even though embezzlement was taking place right under their nose. He doesn't think that if they're regulating the gambling industry they want "accounting standards." The Commission wants people to go in and sniff out trouble. They should be bloodhounds. CPAs are not bloodhounds professionally and they're not required to be so. **Commissioner Forrest** said it seemed to him that most of this was aimed at protecting the operator. He wanted to know what the threat was to the public? If somebody goofed up and didn't perform checking the cash box or some little discrepancy is found, he wondered what the impact was on the public? Obviously, the operator doesn't want his employees to be stealing from him and he is adequately motivated to prevent that, but what is the Commission doing with all this?

Ms. Winslow said one of the aspects of the internal control structure would be to, for example, to check to see that game rules are properly followed and dealers are handling the gaming operation appropriately – dealing the cards, picking up the money. **Commissioner Forrest** wondered how some CPA coming in and going into the

back room and looking at the records going to help that? **Ms. Winslow** said they were not just going to look at just records. They are going to look at how they follow the procedures that they're supposed to be following. **Chairperson McLaughlin** asked if they were going to play the game. **Commissioner Forrest** asked if they were actually going to go out and watch the dealers. **Ms. Winslow** said they will go up into surveillance and make sure that they're following the procedures that are established. **Commissioner Heavey** said he'd rather have an ex-cop and what special training do CPAs have on surveillance? **Ms. Winslow** said that what they were finding is they have people who are working in this capacity right now and the proficiency level isn't where the staff want it to be. The reports that they're getting from licensed CPAs show that there's a better understanding of the control environment and that they're actually finding mistakes and they're working with the licensees to correct those mistakes, so the experience level is there with some of the licensed CPAs that have worked in the gaming environment.

Commissioner Forrest said the Commission does not pay their staff that much money and he thinks they would be more knowledgeable at supervising this than CPA who comes in and bills \$75 an hour and knows beans about gambling, particularly if what she is telling them is really reviewing the surveillance proceeding. **Ms. Winslow** said that was only aspect of it. **Chairperson McLaughlin** asked what the possibility was of the Commission doing it rather than having a CPA doing it. **Ms. Winslow** said that was one of the versions that's presented. She said they have not prepared any staffing models or projections based on what that would require. **Chairperson McLaughlin** thought it would be to the commercial licensee's benefit to know which way it would be more economical for them to proceed – whether the Commission staff did it or the CPA did it and it sounded to her like they have at least two commissioners who would feel more comfortable if the Commission staff did it.

Director Bishop said when the Commission staff went into this they were looking for work that would supplement staff work, not duplicate it. He said the staff would certainly be going in and he envisions that staff would be looking for a report on internal controls – not an audit. That term, itself, is talking about a function that staff are looking for, but they are not requiring a CPA to come in and do an audit. To do an audit, they would have to evaluate the internal control structure, then the next step the auditor goes in and says is this internal control structure adequate to protect the assets and to make sure that all the transactions are recorded, and then the third and final step is to go in and test to see if they are actually following those controls. He said he did not anticipate that that was what they were looking for is that complete cycle. Commission staff are going to make sure that the rules which are codified are followed per se, but rather than coming in every year and looking at the operator's business and see if the set that they currently have is adequate for that – that's what they were looking for from the CPA – not for an audit report, but a report on internal control structure.

Commissioner Forrest said that if the Commission has already approved the internal control structure and part of issuing the license, he did not see much point in asking the licensee to pay a CPA to say he had looked over the internal controls and they look just fine. **Director Bishop** agreed that annually or at least some periodic time, then staff would have to go back and start from step one and evaluate, because businesses do change. **Commissioner Forrest** thought that detailed spot checks by Commission staff would be more useful in policing this and he is not impressed with this proceeding.

Commissioner Heavey said he has a lot of problems with CPAs doing it. They could send anybody out there that they want to. He said they have two people here who know a lot more about this than he does – two CPAs on staff. But they have a ranking of senior, junior, junior-junior – whatever – and what they do when they go out and test is they send out one of these juniors to look at things. It's not as though the CPA is doing the job. The CPA is supervising doing the job and so what the Commission has going here is the Commission supervises the supervisor who supervises somebody who supervises somebody. That's why embezzlements occur and why they're not caught is because these junior people go out there and they don't have enough experience to properly check to see if the internal controls are being followed. The one case that he did the person was supposed to have checked void checks and this how the guy was embezzling the money and they had never even checked the void check file – never even looked at it. And then he had to check on one side that was for \$2,000 and another check on the other side was \$2,000 and the \$5,000 check in between, he didn't even look at it. He said that he didn't think that when the Commission is regulating somebody they want to run that type of risk. He said in that example, nobody lost their license – it just cost them a million bucks.

Ms. Winslow said she wanted Commissioner Heavey to know that they checked with some of the local firms and

found out that if they did perform this work they were going to use one of the seniors – that's what they told staff during their discussions. The cost of the review would be approximately less than \$15,000 if that 40-hour limit were to remain. **Chairperson McLaughlin** asked if that 40 hours were every three months. **Ms. Winslow** said that was correct, but they did discuss that at length and talked about eliminating that amount if staff were going to use someone that is a licensed CPA because they do have the ethical standards that require them to do sufficient amount of work to properly report on the activity.

Commissioner Herbold wondered what would be the problem with the Commission staff without specifying quarterly and 40 hours, just having the obligation at their discretion to conduct these audits or spot-checks to make sure that each of the licensees is operating in accordance with the internal controls that have been set up. That way they don't necessarily know when the auditor is coming so that they get everything all ready for them and that way there are people who know what it's all about because they are the ones who put the internal controls into place. **Ms. Winslow** said that made sense and that was why they had version B. **Commissioner Herbold** said that even that says quarterly and 40 hours. **Ms. Winslow** said that was something that could be easily changed. **Director Bishop** said if they went to version B, he would not codify the work that had to be done. He would have staff do that and make it a part of their procedures. **Commissioner Herbold** said she was more comfortable with that. **Chairperson McLaughlin** said she thought they had given the general idea. **Ms. Winslow** said she was quite clear on the direction the Commission wished to take.

WAC 230-40-825 Closed circuit television system requirements and procedures. This new section was developed to outline activities requiring surveillance systems for house-banked games, player-supported jackpots, the rake assessment method would also be part of this requirement. In addition it addresses the procedures to be followed such as the specifications for the system, video cameras and recordings, multiplexing limitations, and record requirements. Also, the WAC requires a surveillance employee to be present during all hours of house-banked operations.

Commissioner Ludwig asked if that is being done now. **Ms. Winslow** said this WAC rule fairly closely mirrors the existing activity that's being included in the test program with a couple exceptions staff are clarifying that multiplexing devices are not allowed except for external surveillance movement of drop boxes between tables and the count room and entrances and exits and also staff are not requiring a surveillance employee to be present for house-banked card game activity. **Commissioner Ludwig** said he was in an establishment where there wasn't somebody present. **Ms. Winslow** said that's not required now. That's the one change. **Commissioner Ludwig** said that was his question – is it being done down and the answer is no. **Ms. Winslow** said that was correct.

WAC 230-40-830 Cashier's cage – Requirements. This new section was developed to outline the responsibilities for the cashier's function to include cage function, the design, and location of the cage. In addition it includes limitations on entry and a log on all entries.

WAC 230-40-833 Cashier's bank and minimum bankroll. This new section established requirements for sufficient funding to meet all cash out and prize pay-outs. It requires an imprest basis but allows for alternatives as long as specific criteria is met. **Commissioner Forrest** asked for the definition of imprest basis. **Ms. Winslow** said that definition is toward the back and she said she would go over that in detail. **Commissioner Forrest** said he would read it since it was in the back. **Chairperson McLaughlin** asked if this were the appropriate time to bring up the possibility of not allowing paychecks to be cashed in a commercial . . . **Ms. Winslow** said no they have an additional rule on checks.

WAC 230-40-835 Accounting controls for cashier's cage. This new section requires the licensees with cashier's cage to adhere to specific requirements. It outlines the cashier's functions, signature requirements and the documentation for the cage.

Chairperson McLaughlin referring to her previous question regarding not allowing paychecks to be cashed she read number C under 1: "Received traveler's checks or other cash equivalents including money orders, certified checks, cashier checks." She pointed out that it does not address the issue of paychecks. She wondered if there were any place in this section where it would be appropriate to insert that they cannot cash paychecks; providing,

of course, she could get two more commissioners to agree with her. **Ms. Winslow** said it would be better to add that later along in the rule changes. **Chairperson McLaughlin** said she didn't know if she would be able to get others to agree with her, but every time she reads about problem gambling and they talk about cashing the paycheck and spending there in the establishment.

WAC 230-40-840 Drop box – Requirements. This new section requires drop boxes for house-banked games and those licensees using the drop box collection method. It outlines the drop box procedure and requirements for boxes in addition to the storage procedures.

WAC 230-40-845 Procedures for exchange of checks submitted by gaming patrons at the cashier's cage. This new section outlines the additional procedures to WAC 230-12-053 which is also on checks which includes what the cashier will do with submissions, requirements for accepting traveler's checks and how dishonored checks are handled. **Chairperson McLaughlin** asked if there are two commissioners that agree with her that that should be looked at. **Commissioner Heavey** said he didn't mind looking at it as long as it didn't apply to workers who want to gamble and the banks are closed. **Commissioner Forrest** supports looking at this. **Commissioner Heavey** said he would also support. **Commissioner Ludwig** said if they can accept that employee's person check, he wondered why all the fuss. He goes in and writes a personal check on payday and goes to the bank the next morning and deposits his paycheck into his checking account and he felt sure that was a common practice. **Chairperson McLaughlin** said she doesn't think there would be too many people who would write an \$800 personal check to go gambling right off. They'd might write a smaller amount and they might use common sense before they wrote the next one. **Commissioner Heavey** said they would also be saving their licensees the possibility that that employer was about to go bankrupt and his check was going to bounce.

WAC 230-40-855 Acceptance of gratuities from patrons for house banked activities. This new section covers control procedures for gratuities. It limits employees allowed to accept gratuities and outlines how chips that can be accepted must be controlled and also includes reporting requirements for federal income tax on those chips.

Commissioner Ludwig asked if players cannot buy chips at the cashier's cage. **Ms. Winslow** said that's correct. She said this was a common way of handling the gaming in establishments throughout the state as she is told and also in Nevada and she has been told that it is to assist in determining the drop. **Commissioner Ludwig** said the operators like this rule. **Ms. Winslow** said she believed that to be so. It's helpful for Title 31 compliance. **Commissioner Heavey** asked about pooling tips and then paying them. He said he thought there was an IRS problem associated with pooling tips and that's why they don't do it in restaurants.

Eric Durbin CFO for the Muckleshoot Casino, said that the IRS prefers that tips are pooled because when they're pooled they as an entity take those tips and pay them by check, withhold the proper taxes and they are fully reported as opposed to the employees keeping their own tips that don't get dropped into a box. The chips get dropped into a box and are counted separately. **Commissioner Ludwig** said they prefer it but they don't require it. **Mr. McCoy** asked for an explanation of the Title 31 requirement so that would also be clear for everyone. **Mr. Durbin** said in regard to the chips being purchased at the table, they allow a threshold of \$1,000 of chips to be purchased at the cage, but their preference is to have chips purchased out on the table so that cash is coming in out in the tables, cash is going out from the cage because they must monitor cash flows both coming and going and when they are going two different directions at one location it just complicates the tracking of the cash. **Chairperson McLaughlin** asked if Title 31 IRS law. **Mr. Durbin** said this is a Treasury requirement. **Mr. McCoy** said it was the anti-money-laundering provision that requires them to make a report out on any \$10,000 pay-out.

WAC 230-40-860 Tables inventories and procedure for opening tables for house banked card games. This new section is for accountability of gaming chips and coin to begin play at house-banked games. It includes table inventory requirements, key procedures, and those procedures for opening gaming tables.

WAC 230-40-865 Procedure for distributing gaming chips and coins to house banked gaming tables – Requests and fills. This new section is for the accountability of gaming chips and coins and how to distribute those to the gaming tables. It includes requirements for requests and fills and transporting of chips and coin. It also includes signature requirements and outlines how voids are handled.

WAC 230-40-870 Procedure for removing gaming chips and coins from house banked gaming tables – Requests and credits. This new section for accountability of gaming chips and coin outlines how to remove those from the gaming tables. It includes requirements for requests and credits, transporting of chips and coin, also includes signature requirements and outlines how voids are handled.

WAC 230-40-875 Procedures for closing house banked gaming tables. This new section outlines the accountability for gaming chips and coin. How to close play at a house-banked game. It also includes a table inventory requirement, signature requirements, and those procedures necessary to close a gaming table.

WAC 230-40-880 Count room requirements. This new section is for house banked games are those games with drop boxes. It outlines the count room security requirements. It also includes the count room specification, counting procedures, and those requirements for items within a count room.

WAC 230-40-885 Counting and recording contents of drop boxes – Procedures. This new section outlines the accountability requirements for chips, coin and currency. Its specific procedures for counting and recording contents of drop boxes, detail to include notifications of procedures, record-keeping requirements and controls inherent in that process. In addition it sets out the requirements for non house-banked games.

WAC 230-40-890 Signature requirements. This new section covers signature requirements for each transaction of cash, coin, and chips for house-banked games. It includes a signature and card requirements for those activities.

A. Card Room Definitions

- a) New Section WAC 230-40-550 -- Phase I defined for house banked card games
- b) New Section WAC 230-40-552 -- Phase II defined for house banked card games
- c) New Section WAC 230-40-556 -- Real time defined
- d) New Section WAC 230-40-558 -- Incompatible functions defined
- e) New Section WAC 230-40-560 -- Imprest defined
- f) New Section WAC 230-40-562 -- Drop box defined
- g) New Section WAC 230-40-564 -- Cash equivalent defined
- h) New Section WAC 230-40-568 -- Prize fund custodian defined
- i) New Section WAC 230-40-570 -- Chief executive officer/chief operations officer defined
- j) New Section WAC 230-40-574 -- Gaming operations manager defined
- k) New Section WAC 230-40-576 -- Shift manager defined
- l) New Section WAC 230-40-578 -- Floor supervisor defined
- m) New Section WAC 230-40-580 -- Dealer defined
- n) New Section WAC 230-40-582 -- Fee based on a period of time defined – Assessment of fees
- o) New Section WAC 230-40-584 -- Per-hand fee method defined – Assessment of fees
- p) New Section WAC 230-40-586 -- Rake method defined – Assessment of fees

Ms. Winslow said these are definitions.

WAC 230-40-550 Phase I defined for house banked card games. Defines phase I for procedures required before operation.

WAC 230-40-552 Phase II defined for house banked card games. This defines the phase II procedures required before an approval may be allowed for increased wagering. **Commissioner Forrest** said that at the next meeting, he'd like to explore the question of the \$100-limit and where it came from other than this maximum permitted. **Commissioner Herbold** seconded this request. **Ms. Winslow** said she would make a note of that and make sure that that is brought up under wagering limits.

WAC 230-40-556 Real time defined. This defines their recording and play-back requirements for video signals.

WAC 230-40-558 Incompatible functions defined. Defines what is considered to be an incompatible function.

WAC 230-40-560 Imprest defined. A basis on which the cashier's cage funds are replenished by exactly the amount of net expenditures made from those funds and the amounts received. This definition was taken from the tribal gaming compact language.

WAC 230-40-562 Drop box defined. This defines the drop box as a metal container used for specific purposes.

WAC 230-40-564 Cash equivalent defined. Defines cash equivalents to be allowed in gaming operations.

WAC 230-40-568 Prize fund custodian defined. This defines the parameters for a prize fund custodian which is to control player-supported jackpot funds.

WAC 230-40-570 Chief executive officer – Chief operation officer defined. Defines the COO, CEO as a person responsible for all card room operations.

WAC 230-40-574 Gaming operations manager defined. This defines the gaming operations manager as the person responsible for the management of the card room operations.

WAC 230-40-576 Shift manager defined. This requires that the shift manager be the person responsible for all card room operations during a shift.

WAC 230-40-578 Floor supervisor defined. Defines the floor supervisor as a person responsible for directly supervising a limited number of games within a designated area.

WAC 230-40-580 Dealer defined. A dealer is defined as an employee who deals, collects fees and bets and pays off bets.

WAC 230-40-582 Fees based on a period of time. This outlines agency fees based on time and it is likely that this will be deleted and it will be included only in section 40-050 because it is a duplication.

WAC 230-40-584 Per-hand fee method defined – Assessment of fees. This is a duplication of the language in 40-050 and it will likely be deleted. It outlines agency fees per hand.

WAC 230-40-586 Rake method defined. Again, it should be deleted and left in 40-050 so next month this will be done. It outlines the rake method procedures for assessing fees.

A. Other Rules Relating to Card Games

- a. New Section WAC 230-02-109 -- Net win defined
- b. Amendatory Section WAC 230-02-110 -- Gross gambling receipts defined
- c. Repealed Section WAC 230-02-400 -- Card game
- d. Amendatory Section WAC 230-04-022 -- Certification procedure – Information required from all applicants
- e. Amendatory Section WAC 230-04-140 -- Licensing of public card room employees
- f. Amendatory Section WAC 230-04-203 -- Fees – Commercial stimulant and other business organizations
- g. Amendatory Section WAC 230-04-204 -- Fees – Individuals
- h. Amendatory Section WAC 230-08-040 -- Sales invoices – Minimum information to be recorded for transfer of gambling equipment and merchandise – Retention – Penalties
- i. Amendatory Section WAC 230-08-090 -- Daily records – Card games
- j. New Section WAC 230-08-027 -- House banked card games – General accounting records to be maintained
- k. Amendatory Section WAC 230-12-050 -- Extension of credit, loans, or gifts prohibited – Limited exception
- l. New Section WAC 230-12-072 -- Player supported progressive prize contest funds - Deposit requirements.

WAC 230-02-109 Net win defined. Defines net win as gross wagers less amounts paid as winning wagers.

WAC 230-02-110 Gross gambling receipts defined. Defines gross gambling receipts for all gaming activity. It also outlines how jackpot wagers are not considered gross receipts for house-banked and non-house-banked games. In addition it eliminates investigation funds from gross receipts.

WAC 230-02-400 Card game. This rule is being repealed since it is no longer accurate or necessary

WAC 230-04-022 Certification procedure – Information required from all applicants. This changes outlines the certification procedure for gambling service suppliers in this particular area and how the agreements must be handled or approved prior to offering services or the effective dates of the agreements.

WAC 230-04-140 Licensing of public card room employees. This outlines the 20-day wait for house-banked card room employees and how waivers can be received for unexpected reasons. In addition this clarifies how transfers are handled for employees.

WAC 230-04-203 Fees – Commercial stimulant and other business organizations. This outlines the fees for Class D, E, and F card rooms. **Director Bishop** noted that some of the procedures discussed earlier, these fees will be definitely be tied to those, so when staff duties are changed, these fees will go up.

WAC 230-04-204 Fees for individuals. This outlines the fees applicable for individuals working in card rooms.

WAC 230-08-040 Sales invoices – Minimum information to be recorded for transfer of gambling equipment and merchandise – Retention – Penalties. This change outlines the additional requirements for sales invoices for card room forms.

WAC 230-08-090 Daily records – Card games. This enumerates the daily record requirements for all enhanced card games. It specifically provides for minimum records for house-banked and non-house-banked games and records for progressive prizes.

WAC 230-08-027 House banked card games – General accounting records to be maintained. This enumerates the general accounting records for house-banked games. Its requirements are a double entry accrual system to record all transactions. In addition it requires specific subsidiary records and maintenance of documents.

WAC 230-12-050 Extension of credit loans and gifts prohibited – Limited exception. This reflects a change in a reference down in subsection 4d.

WAC 230-12-072 Player supported progressive prize contest fund – Deposit requirements. This new section is to establish control procedures for player funds. It requires a separate bank account for the funds, detail on how expenditures can be made and how receipts must be controlled and deposited.

Chairperson McLaughlin thanked Ms. Winslow and her staff and how they put together these 60 rules.

Commissioner Ludwig said that as she was going through right up through number of players and spaces on tables up through fees, he has been concerned with one issue and he wanted to mention it and perhaps it could be discussed later and that is the number of spaces on the table. He said he is inexperienced and naïve about some of these things, but he has been observing playing at a blackjack table and he has traditionally believed and noticed that they always have seven spots at a table in Reno, or Nevada or places where they play blackjack. He said he understands that if there is an unlimited right to number of tables, it doesn't make a lot of difference, but he always felt that that seven was for the operator's control and also for the convenience of the player and how fast the game went. **Chairperson McLaughlin** said that was what the operator said yesterday, that the smaller number of players at a table, the faster the game.

Commissioner Ludwig said that was right and another concern of his is when there are nine spaces and allow only seven players, there is going to be some angry player standing back about one step saying, "Well there's spaces – how come I can't play one of them?" He said if he were an operator he would be concerned, but more importantly the fees for 15 tables are \$9,000 and when they go from a traditional standardized seven-players table to nine spaces a table whether it's seven players or two or up to nine, they have increased the 15 tables by four more. At nine tables per player, there is another 30 spaces with 15, so now there are, not the 15 that the Legislature may have contemplated, but now there are the equivalent of 19 standard seven-space tables. He wonders if those people who want to maintain seven for whatever those traditional reasons are, shouldn't pay the \$9,000 or a lesser sum and those with more spaces per table have a higher fee, or at least higher than seven places per table. If they are going to be fair, it ought not to be on tables, it ought to be based on the equivalent number of plays at a table. He realizes the way the rule is written, it doesn't say nine players; it says nine spaces and only seven players. But still that's a nine-player table and he thinks they have hedged on the legislation when they went from 15 tables to the equivalent of 19 tables. He said this can be discussed later.

Ms. Winslow said that during the discussions with the rules committee from the licensee groups, she was informed at that time because they obviously came forward with seven. They started out with seven spots, seven players. They were advised that what is happening in Washington both in the tribal arena and the commercial arena through the test program is nine players, nine spots. She said it's a local, Washington State phenomena as opposed to around the U. S. She thinks it might have been attributable to one individual who worked in several different establishments started the ball rolling and it continued to roll and became an accepted practice. She said she couldn't attest to what the Legislature thought they were approving when they said 15 tables, but that's what she was told.

Commissioner Ludwig said in that regard in Washington he could understand nine or ten spots on a blackjack table prior to house-banked games because that's the only real way an operator made any money. He's got nine or ten people to charge by the half-hour instead of seven and it made some sense that they'd increase the number there. It makes some sense to increase the number now because of the equivalent number of players or the number of 19 tables instead of 15. **Chairperson McLaughlin** said they might look at that one as well. **Ms. Winslow** said she had made a note of it.

Commissioner Forrest said he is worried about the relationship between the statutes and the Commission rules in regarding to "primarily" and "food" and "commercial stimulant" and so forth. At his request, he had Mr. Fleisher put together a couple of pages and had a staff person do a little bit of preliminary research on the history. To him "primarily" has pretty clear meaning, but apparently it doesn't have a very clear meaning to other people, but he finds the rules and the practice and the legislative definitions inconsistent and he hopes that the staff would take a further look and then have a discussion next meeting. He handed out a copy to the commissioners with excerpts from the rules and the statutes. He wants to see them harmonized and for the moment he doesn't have a fixed opinion as to how it should be done, but it appears to him that the current practice and the current rule is not consistent with the statutory language and he thinks the Commission ought to do something about it.

Chairperson McLaughlin asked if there were any other comments and reminded the audience there will be more opportunities for comments at upcoming meetings.

OTHER BUSINESS/GENERAL DISCUSSION/COMMENTS FROM THE PUBLIC

Chairperson McLaughlin asked if anyone wished to make comments

Mr. Robert L. Ransom, Cascade Bingo, said he submitted a letter to the executive director a two-page letter for Commission review, which they have and he heard some of the discussion this morning and it may have been answered, but he wanted to present it. When he wrote his letter and spoke before the House and Senate, the WCCGA had not produced a bill before those two bodies and they now have 5745 before the Senate and 1742 before the House to reduced bingo tax to half its current amount and he had not heard at all about 1904 which was mentioned this morning – that was the first he heard of it. What his request is and what his letter indicates is that many of the bingo establishments find that bingo is the heart of their operation and that they are sharing, in effect, 50 percent of their money with local government as it is outlined in his letter, and since the federal government recognizes this as tax-exempt, the state really does for B & O taxes. They are appealing and asking for support on a bill to go through the House and the Senate (he said he has already talked to other senators and house members.

Mr. Ransom said they were moving on their own bill to have tax-exempt bingo which meant local taxes would not be assessed. So WCCGA is asking to have a cut in half. Another bill 1904 wanting it on net income which reduced it to about three percent and Cascade Bingo and some other nonprofits were taking the position that it is tax-exempt everywhere but in local government. It makes it clean, neat. They felt it makes a better appeal to the public to say charitable bingo is tax exempt; it was meant to be a charity whether it's a nonprofit organization, a church or whatever that this then is the way to take it to support their programs and save in effect the state tax money because these programs for social services at risk children and others would probably be supplemented by either state or local government taxes to provide services to these same individuals if the charities were not doing this. His original intention was to come before the Commission and ask for their support on this bill. After the discussion this morning with regard to policy versus rules, it seemed to him that they were saying that they

didn't wish to take a position because it was a policy-making of the state legislators, so he is not sure if he has made a correct assumption or not, but he wanted to explain what he was doing and also hoping that they would support at least one of these three bills for reduced taxes for bingo.

Commissioner Heavey said he liked the one to make them tax exempt because government doesn't tax itself so why should it tax an organization that provides governmental services? **Commisisoner Forrest** said he concurs with Judge Heavey's remarks. **Commissioner Ludwig** asked if it would be substantially lowered or as their colleagues say "I'm in favor for better breaks for charities." **Chairperson McLaughlin** said she would agree. She wondered if Mr. Ransom had come up with a time that this would go into place because most governments have set their budgets now counting what money they have coming in. **Mr. Ransom** said he had not in the proposal, but he was assuming that either the state government would make a July 1st as is their normal practice or January 1st. **Chairperson McLaughlin** thought the taxes go to the local government, not state government. **Mr. Ransom** said that was correct and most local governments are on a January to January fiscal year although there are couple that have changed it.

Commissioner Heavey moved that they support the legislation that they eliminate or substantially reduce the tax upon nonprofits and charitable bingo operations. **Commissioner Forrest** seconded the motion. *Vote taken, motion carried with five aye votes.*

Mr. Ransom thanked the Commission. **Commissioner Heavey** thanked him and **Commissioner Forrest** wished him good luck. **Chairperson McLaughlin** hoped that they were not hurting the local government by doing this at this time. **Commissioner Heavey** said then local government can provide the services that the bingo games are providing. If they want to tax them, let them provide the services. **Mr. Ransom** said that as his letter had pointed out in many cases as in his city, the other casinos have more than offset any loss of income.

MEETING ADJOURNED

Minutes submitted to the Commission for approval,

*Susan D. Yeager
Executive Assistant*